

INTUIT INC  
Form 10-Q  
December 01, 2006

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

**FORM 10-Q**

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
**For the quarterly period ended October 31, 2006**  
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** **77-0034661**  
*(State of incorporation)* *(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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.  
Yes  No

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 348,655,929 shares of Common Stock, \$0.01 par value, as of November 22, 2006

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

	<b>Three Months Ended</b>	
	<b>October</b>	<b>October</b>
	<b>31,</b>	<b>31,</b>
	<b>2006</b>	<b>2005</b>
<i>(In thousands, except per share amounts; unaudited)</i>		
Net revenue:		
Product	\$ 212,420	\$ 182,454
Service and other	149,651	121,617
Total net revenue	362,071	304,071
Costs and expenses:		
Cost of revenue:		
Cost of product revenue	37,343	32,431
Cost of service and other revenue	68,372	59,248
Amortization of purchased intangible assets	2,308	2,949
Selling and marketing	155,098	147,430
Research and development	120,214	97,280
General and administrative	77,388	63,595
Acquisition-related charges	2,842	3,759
Total costs and expenses	463,565	406,692
Operating loss from continuing operations	(101,494)	(102,621)
Interest and other income	10,290	6,304
Gains on marketable equity securities and other investments, net	1,221	4,267
Loss from continuing operations before income taxes	(89,983)	(92,050)
Income tax benefit	(31,268)	(34,439)
Minority interest, net of tax	215	
Net loss from continuing operations	(58,930)	(57,611)
Net income from discontinued operations		11,807
Net loss	\$ (58,930)	\$ (45,804)
Basic and diluted net loss per share from continuing operations	\$ (0.17)	\$ (0.16)
Basic and diluted net income per share from discontinued operations		0.03
Basic and diluted net loss per share	\$ (0.17)	\$ (0.13)

Shares used in basic and diluted per share amounts	346,214	354,812
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See accompanying notes.

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

*(In thousands; unaudited)*

	<b>October 31, 2006</b>	<b>July 31, 2006</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 166,074	\$ 179,601
Investments	893,087	1,017,599
Accounts receivable, net	95,499	97,797
Income taxes receivable	103,880	64,178
Deferred income taxes	51,114	47,199
Prepaid expenses and other current assets	72,012	53,357
Current assets before funds held for payroll customers	1,381,666	1,459,731
Funds held for payroll customers	436,212	357,299
Total current assets	1,817,878	1,817,030
Property and equipment, net	201,700	194,434
Goodwill, net	555,506	504,991
Purchased intangible assets, net	63,010	59,521
Long-term deferred income taxes	142,194	144,697
Loans to executive officers and other employees	8,865	8,865
Other assets	46,006	40,489
Total assets	\$ 2,835,159	\$ 2,770,027
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 97,854	\$ 70,808
Accrued compensation and related liabilities	90,792	171,903
Deferred revenue	276,647	293,113
Income taxes payable	17,992	33,560
Other current liabilities	101,476	89,291
Current liabilities before payroll customer fund deposits	584,761	658,675
Payroll customer fund deposits	436,212	357,299
Total current liabilities	1,020,973	1,015,974
Long-term obligations	14,948	15,399
Commitments and contingencies		
Minority interest	814	568
Stockholders' equity:		
Preferred stock		

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Common stock and additional paid-in capital	2,139,998	2,092,914
Treasury stock, at cost	(1,866,422)	(1,944,036)
Accumulated other comprehensive income	1,799	1,084
Retained earnings	1,523,049	1,588,124
Total stockholders' equity	1,798,424	1,738,086
Total liabilities and stockholders' equity	\$ 2,835,159	\$ 2,770,027

See accompanying notes.

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

	Common Stock		Additional Paid In Capital	Treasury Stock	Deferred Compensation	Accumulated	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				Other Comprehensive Income (Loss)		
<i>(Dollars in thousands; unaudited)</i>								
<b>Balance at July 31, 2006</b>	<b>344,170,779</b>	<b>\$3,442</b>	<b>\$2,089,472</b>	<b>\$(1,944,036)</b>	<b>\$</b>	<b>\$1,084</b>	<b>\$1,588,124</b>	<b>\$1,738,086</b>
Components of comprehensive loss:								
Net loss							(58,930)	(58,930)
Other comprehensive income, net of tax						715		715
Comprehensive net loss								(58,215)
Issuance of common stock upon exercise of options and other - post-split	3,907,469	39	11,387	70,947			(5,506)	76,867
Issuance of common stock pursuant to Employee Stock Purchase Plan - post-split	260,132	3		6,663			(635)	6,031
Issuance of common stock pursuant to vesting of Restricted Stock Units - post-split	172			4			(4)	
Tax benefit from employee stock option transactions			16,796					16,796
Share-based compensation - restricted stock			5,031					5,031
Share-based compensation - all other			13,828					13,828
<b>Balance at October 31, 2006</b>	<b>348,338,552</b>	<b>\$3,484</b>	<b>\$2,136,514</b>	<b>\$(1,866,422)</b>	<b>\$</b>	<b>\$1,799</b>	<b>\$1,523,049</b>	<b>\$1,798,424</b>

	Common Stock		Additional Paid In Capital	Treasury Stock	Deferred Compensation	Accumulated	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				Other Comprehensive Income (Loss)		
<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>\$</b>	<b>174</b>	<b>\$1,291,487</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 - pre-split	514,209	5		22,355		(6,069)	16,291	
Issuance of common stock pursuant to Employee Stock Purchase Plan - pre-split	136,588	1		6,263		(1,087)	5,177	
Stock repurchases under stock repurchase programs - pre-split	(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>

Note: We effected a two-for-one stock split in the form of a 100% stock dividend on July 6, 2006.

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

See accompanying notes.

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

	<b>Three Months Ended</b>	
	<b>October 31, 2006</b>	<b>October 31, 2005</b>
<i>(In thousands)</i>		
<b>Cash flows from operating activities:</b>		
Net loss	\$ (58,930)	\$ (45,804)
Net income from discontinued operations		(11,807)
Net loss from continuing operations	(58,930)	(57,611)
Adjustments to reconcile net loss from continuing operations to net cash used in operating activities:		
Depreciation	22,275	23,145
Acquisition-related charges	2,842	3,759
Amortization of purchased intangible assets	2,308	2,949
Amortization of other purchased intangible assets	2,571	2,031
Share-based compensation restricted stock	5,031	1,325
Share-based compensation all other	13,828	19,099
Loss on disposal of property and equipment	214	34
Amortization of premiums and discounts on available-for-sale debt securities	890	1,094
Net realized loss on sales of available-for-sale debt securities	8	380
Net gains on marketable equity securities and other investments	(1,221)	(4,267)
Minority interest, net of tax	215	
Deferred income taxes	(2,847)	2,520
Tax benefit from share-based compensation plans	16,796	2,522
Excess tax benefit from share-based compensation plans	(8,753)	(939)
Gain on foreign exchange transactions	(88)	(15)
Subtotal	(4,861)	(3,974)
Changes in operating assets and liabilities:		
Accounts receivable	2,604	12,921
Prepaid expenses, taxes and other current assets	(58,258)	(38,494)
Accounts payable	26,351	30,665
Accrued compensation and related liabilities	(81,162)	(64,399)
Deferred revenue	(16,779)	(5,237)
Income taxes payable	(15,713)	(16,771)
Other liabilities	11,112	(9,471)
Total changes in operating assets and liabilities	(131,845)	(90,786)
<b>Net cash used in operating activities of continuing operations</b>	<b>(136,706)</b>	<b>(94,760)</b>
Net cash provided by operating activities of discontinued operations		10,981
<b>Net cash used in operating activities</b>	<b>(136,706)</b>	<b>(83,779)</b>

**Cash flows from investing activities:**

Purchases of available-for-sale debt securities	(400,875)	(289,119)
Liquidation of available-for-sale debt securities	490,197	555,069
Maturity of available-for-sale debt securities	34,830	20,775
Proceeds from the sale of marketable equity securities	858	
Net change in funds held for payroll customers money market funds and other cash equivalents	(78,913)	12,406
Purchases of property and equipment	(29,223)	(25,057)
Change in other assets	(4,678)	(4,454)
Net change in payroll customer fund deposits	78,913	(12,406)
Acquisitions of businesses and intangible assets, net of cash acquired	(60,002)	(10,148)
<b>Net cash provided by investing activities</b>	<b>31,107</b>	<b>247,066</b>

**Cash flows from financing activities:**

Change in long-term obligations	(441)	(634)
Net proceeds from issuance of common stock under stock plans	82,898	21,468
Purchase of treasury stock		(194,800)
Excess tax benefit from share-based compensation plans	8,753	939
<b>Net cash provided by (used in) financing activities</b>	<b>91,210</b>	<b>(173,027)</b>

Effect of exchange rates on cash and cash equivalents	862	872
<b>Net decrease in cash and cash equivalents</b>	<b>(13,527)</b>	<b>(8,868)</b>
Cash and cash equivalents at beginning of period	179,601	83,842
<b>Cash and cash equivalents at end of period</b>	<b>\$ 166,074</b>	<b>\$ 74,974</b>

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, financial management and tax solutions for small businesses, consumers and accountants. Our flagship software products include QuickBooks, TurboTax, Lacerte, ProSeries and Quicken. Founded in 1983 and headquartered in Mountain View, California, we sell our products and services primarily in the United States. We have approximately 7,500 employees in the United States and internationally in Canada and several other locations.

*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. The condensed consolidated financial statements also include the financial position, results of operations and cash flows of Superior Bankcard Services, LLC (SBS), an entity that acquires merchant accounts for our Innovative Merchant Solutions business. We are allocated 51% of the earnings and losses of this entity and 100% of the losses in excess of the minority interest capital balances. We therefore eliminate the portion of the SBS financial results that pertain to the minority interests on a separate line in our statements of operations and balance sheets.

We have reclassified certain amounts previously reported in our financial statements to conform to the current presentation, including amounts related to discontinued operations and reportable segments. We have also combined other revenue and cost of other revenue with service revenue and cost of service revenue. Other revenue was approximately 5% of total net revenue for the three months ended October 31, 2006 and 2005.

Our Board of Directors authorized a two-for-one stock split which was effected in the form of a 100% stock dividend on July 6, 2006 to stockholders of record on June 21, 2006. All share and per share figures in the statements of operations and the notes to the financial statements retroactively reflect this stock split.

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 included in our Annual Report on Form 10-K for the fiscal year ended July 31, 2006. Results for the three months ended October 31, 2006 do not necessarily indicate the results we expect for the fiscal year ending July 31, 2007 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 many of our small business software products, including QuickBooks, tends to be at its peak around calendar year end, although the timing of new product releases or changes in our offerings can materially shift revenue between quarters. 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.

*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 consist of the shares issuable upon the exercise of stock options and upon the vesting of restricted stock units under the treasury stock method. In loss periods, basic net loss per share and diluted net loss per share are identical since the effect of potential common shares is anti-dilutive and therefore excluded.

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We include stock options with combined exercise prices and unamortized fair values 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 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. 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, and the amount of tax benefits that will be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares.

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

	<b>Three Months Ended</b>	
	<b>October</b>	<b>October</b>
	<b>31,</b>	<b>31,</b>
	<b>2006</b>	<b>2005</b>
<i>(In thousands, except per share amounts)</i>		
<b>Numerator:</b>		
Net loss from continuing operations	\$ (58,930)	\$ (57,611)
Net income from discontinued operations		11,807
Net loss	\$ (58,930)	\$ (45,804)
<b>Denominator:</b>		
Shares used in basic and diluted per share amounts:		
Weighted average common shares outstanding	346,214	354,812
<b>Basic and diluted net loss per share:</b>		
Basic and diluted net loss per share from continuing operations	\$ (0.17)	\$ (0.16)
Basic and diluted net income per share from discontinued operations		0.03
Basic and diluted net loss per share	\$ (0.17)	\$ (0.13)

**Weighted average stock options and restricted stock awards excluded from calculation due to anti**