

Village Bank & Trust Financial Corp.
Form 10-Q
August 12, 2015

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 June 30, 2015

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: 0-50765

VILLAGE BANK AND TRUST FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Virginia

(State or other jurisdiction of incorporation or organization)

16-1694602

(I.R.S. Employer Identification No.)

13319 Midlothian Turnpike, Midlothian, Virginia 23113

(Address of principal executive offices)

(Zip code)

804-897-3900

(Registrant's telephone number, including area code)

Indicate by check whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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.

Large Accelerated Filer

Non-Accelerated Filer (Do not check if smaller reporting company)

Accelerated Filer

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 No

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

1,412,897 shares of common stock, \$4.00 par value, outstanding as of July 27, 2015

Village Bank and Trust Financial Corp. and Subsidiary

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Part I – Financial Information

ITEM 1 – FINANCIAL STATEMENTS

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Balance Sheets
June 30, 2015 (Unaudited) and December 31, 2014
(dollars in thousands)

	June 30, 2015	December 31, 2014
Assets		
Cash and due from banks	\$15,796	\$ 25,115
Federal funds sold	4,174	23,988
Total cash and cash equivalents	19,970	49,103
Investment securities available for sale	39,420	39,542
Loans held for sale	20,662	9,914
Loans		
Outstandings	301,629	286,146
Allowance for loan losses	(5,567)	(5,729)
Deferred fees and costs	1,060	722
	297,122	281,139
Other real estate owned, net of valuation allowance	8,605	12,638
Assets held for sale	13,711	13,502
Premises and equipment, net	13,718	14,301
Bank owned life insurance	7,038	6,947
Accrued interest receivable	2,041	1,372
Other assets	5,779	5,546
	\$428,066	\$ 434,004
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Noninterest bearing demand	\$74,482	\$ 77,496
Interest bearing	295,929	301,364
Total deposits	370,411	378,860
Federal Home Loan Bank advances	7,000	14,000
Long-term debt - trust preferred securities	8,764	8,764
Other borrowings	3,657	3,302
Accrued interest payable	1,254	1,167
Other liabilities	7,078	8,853

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Total liabilities	398,164	414,946
Shareholders' equity		
Preferred stock, \$4 par value, \$1,000 liquidation preference, 1,000,000 shares authorized; 5,715 shares issued and outstanding at June 30, 2015, 14,738 shares issued and outstanding at December 31, 2014	23	59
Common stock, \$4 par value, 10,000,000 shares authorized; 1,403,647 shares issued and outstanding at June 30, 2015 350,622 shares issued and outstanding at December 31, 2014	5,553	1,339
Additional paid-in capital	58,417	58,188
Accumulated deficit	(34,171)	(40,539)
Common stock warrant	732	732
Stock in directors rabbi trust	(1,034)	(878)
Directors deferred fees obligation	1,034	878
Accumulated other comprehensive loss	(652)	(721)
Total shareholders' equity	29,902	19,058
	\$428,066	\$ 434,004

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Operations
Three and Six Months Ended June 30, 2015 and 2014
(Unaudited)
(dollars in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest income				
Loans	\$ 3,692	\$ 3,795	\$ 7,316	\$ 7,766
Investment securities	154	322	309	654
Federal funds sold	18	25	36	44
Total interest income	3,864	4,142	7,661	8,464
Interest expense				
Deposits	620	767	1,256	1,553
Borrowed funds	103	138	225	300
Total interest expense	723	905	1,481	1,853
Net interest income	3,141	3,237	6,180	6,611
Provision for loan losses	-	-	-	100
Net interest income after provision for loan losses	3,141	3,237	6,180	6,511
Noninterest income				
Service charges and fees	683	601	1,275	1,084
Gain on sale of loans	1,728	1,352	2,957	2,163
Gain on sale of assets	-	3	-	3
Gain on sale of investment securities	-	1	7	1
Rental income	250	250	490	506
Other	75	112	177	236
Total noninterest income	2,736	2,319	4,906	3,993
Noninterest expense				
Salaries and benefits	2,711	2,679	5,379	5,449
Commissions	443	347	735	569
Occupancy	409	393	887	875
Equipment	212	174	398	380
Write down of assets held for sale	687	-	687	-
Supplies	65	78	134	166
Professional and outside services	649	642	1,296	1,281
Advertising and marketing	101	56	173	139
Loss (gain) on sale and write down of OREO, net	(218)	404	(86)	687
Other operating expense	734	816	1,404	1,648
Total noninterest expense	5,793	5,589	11,007	11,194

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Net income (loss) before income tax expense (benefit)	84	(33)	79	(690)
Income tax expense (benefit)	-	-	-	-
Net income (loss)	84	(33)	79	(690)
Preferred stock dividends and amortization of discount	(167)	(347)	(330)	(661)
Preferred stock principal forgiveness	-	-	4,404	-
Preferred stock dividend forgiveness	-	-	2,215	-
Income (loss) available to common shareholders	\$ (83)	\$ (380)	\$6,368	\$(1,351)
Earnings (loss) per share, basic	\$ (0.06)	\$ (1.14)	\$7.00	\$(4.04)
Earnings (loss) per share, diluted	\$ (0.06)	\$ (1.14)	\$6.92	\$(4.04)

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Changes in Comprehensive Income (Loss)
Three and Six Months Ended June 30, 2015 and 2014
(Unaudited)
(dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income (loss)	\$ 84	\$ (33)	\$ 79	\$ (690)
Other comprehensive income (loss)				
Unrealized holding gains (losses) arising during the period	(551)	1,323	106	3,149
Tax effect	(187)	450	37	1,070
Net change in unrealized holding gains (losses) on securities available for sale, net of tax	(364)	873	69	2,079
Reclassification adjustment				
Reclassification adjustment for gains realized in net income	-	(1)	(7)	(1)
Tax effect	-	-	(2)	-
Reclassification for gains included in net income, net of tax	-	(1)	(5)	(1)
Minimum pension adjustment	3	3	6	6
Tax effect	1	1	2	2
Minimum pension adjustment, net of tax	2	2	4	4
Total other comprehensive income (loss)	(362)	874	69	2,082
Total comprehensive income (loss)	\$ (278)	\$ 841	\$ 148	\$ 1,392

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Shareholders' Equity
Six Months Ended June 30, 2015 and 2014
(Unaudited)
(dollars in thousands)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Warrant	Discount on Preferred Stock	Stock in Directors Rabbi Trust	Directors Deferred Fees Obligation	Accumulated Other Loss	Total
Balance, December 31, 2014	\$ 59	\$ 1,339	\$ 58,188	\$(40,539)	\$ 732	\$ -	\$(878)	\$ 878	\$(721)	\$ 19,058
Preferred stock dividend	-	-	-	(330)	-	-	-	-	-	(330)
Restricted stock issuance	-	7	(85)	-	-	-	(156)	156	-	(78)
Issuance of common stock, net of offering expense of \$1,200	-	2,875	5,842	-	-	-	-	-	-	8,717
Preferred stock exchanged for common stock	(18)	1,332	(1,314)	-	-	-	-	-	-	-
Preferred stock principal forgiveness	(18)	-	(4,386)	4,404	-	-	-	-	-	-
Preferred stock dividend forgiveness	-	-	-	2,215	-	-	-	-	-	2,215
Stock based compensation	-	-	172	-	-	-	-	-	-	172
Minimum pension adjustment (net of income taxes of \$1)	-	-	-	-	-	-	-	-	4	4
Net income	-	-	-	79	-	-	-	-	-	79
Change in unrealized gain (loss) on investment securities available-for-sale, net of reclassification and	-	-	-	-	-	-	-	-	65	65

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tax effect

Balance, June 30, 2015	\$ 23	\$ 5,553	\$ 58,417	\$(34,171)	\$ 732	\$ -	\$(1,034)	\$ 1,034	\$(652)	\$ 29,902
Balance, December 31, 2013	\$ 59	\$ 21,353	\$ 38,054	\$(38,066)	\$ 732	\$(50)	\$(878)	\$ 878	\$(3,838)	\$ 18,244
Amortization of preferred stock discount	-	-	-	(50)	-	50	-	-	-	-
Preferred stock dividend	-	-	-	(611)	-	-	-	-	-	(611)
Stock based compensation	-	-	24	-	-	-	-	-	-	24
Minimum pension adjustment (net of income taxes of \$1)	-	-	-	-	-	-	-	-	4	4
Net loss	-	-	-	(690)	-	-	-	-	-	(690)
Change in unrealized gain (loss) on investment securities available-for-sale, net of reclassification and tax effect	-	-	-	-	-	-	-	-	2,078	2,078
Balance, June 30, 2014	\$ 59	\$ 21,353	\$ 38,078	\$(39,417)	\$ 732	\$ -	\$(878)	\$ 878	\$(1,756)	\$ 19,049

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Cash Flows
Six Months Ended June 30, 2015 and 2014
(Unaudited)
(dollars in thousands)

	2015	2014
Cash Flows from Operating Activities		
Net income (loss)	\$79	\$(690)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	445	325
Deferred income taxes	52	(308)
Valuation allowance deferred income taxes	(52)	308
Provision for loan losses	-	100
Write-down of other real estate owned	158	369
Valuation allowance other real estate owned	(293)	(429)
Write-down of assets held for sale	687	-
Gain on securities sold	(7)	(1)
Gain on loans sold	(2,957)	(2,163)
(Gain) loss on sale and disposal of premises and equipment	12	(3)
Gain on sale of other real estate owned	(451)	(234)
Stock compensation expense	172	24
Proceeds from sale of mortgage loans	101,559	79,367
Origination of mortgage loans for sale	(109,350)	(81,022)
Amortization of premiums and accretion of discounts on securities, net	142	205
Decrease (increase) in interest receivable	(669)	146
Increase in bank owned life insurance	(91)	(91)
Increase in other assets	(822)	(656)
Increase in interest payable	87	244
Increase in other liabilities	134	1,300
Net cash used in operating activities	(11,165)	(3,209)
Cash Flows from Investing Activities		
Purchases of available for sale securities	(6,748)	-
Proceeds from the sale or calls of available for sale securities	6,834	3,207
Net decrease (increase) in loans	(15,970)	17,426
Proceeds from sale of other real estate owned	4,606	5,663
Purchases of premises and equipment	(561)	(898)
Proceeds from sale of premises and equipment	-	17
Net cash (used in) provided by investing activities	(11,839)	25,415
Cash Flows from Financing Activities		
Net proceeds from sale of common stock, net of expenses of \$990	8,965	-
Net increase (decrease) in deposits	(8,449)	(1,351)
Net decrease in Federal Home Loan Bank Advances	(7,000)	(3,000)

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Net increase in other borrowings	355	(726)
Net cash (used in) provided by financing activities	(6,129)	(5,077)
Net increase (decrease) in cash and cash equivalents	(29,133)	17,129
Cash and cash equivalents, beginning of period	49,103	40,209
Cash and cash equivalents, end of period	\$19,970	\$57,338
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$1,395	\$1,496
Supplemental Schedule of Non Cash Activities		
Real estate owned assets acquired in settlement of loans	\$279	\$4,931
Assets moved to held for sale	\$831	\$-
Dividends on preferred stock accrued	\$330	\$611
Non-Cash conversion of preferred shares	\$4,619	\$-
Forgiveness of principal and accrued dividends	\$6,619	\$-

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary

Notes to Consolidated Financial Statements

Three and Six Months Ended June 30, 2015 and 2014

(Unaudited)

Note 1 - Principles of presentation

Village Bank and Trust Financial Corp. (the “Company”) is the holding company of Village Bank (the “Bank”). The consolidated financial statements include the accounts of the Company, the Bank and the Bank’s subsidiary. All material intercompany balances and transactions have been eliminated in consolidation.

On August 6, 2014, the Company filed Articles of Amendment to its Articles of Incorporation with the Virginia State Corporation Commission to effect a reverse stock split of its outstanding common stock which became effective on August 8, 2014. As a result of the reverse split, every sixteen shares of the Company’s issued and outstanding common stock were consolidated into one issued and outstanding share of common stock. The computations of basic and diluted earnings (loss) per share have been adjusted retroactively to reflect the reverse stock split.

In the opinion of management, the accompanying condensed consolidated financial statements of the Company have been prepared on the accrual basis in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, all adjustments that are, in the opinion of management, necessary for a fair presentation have been included. The results of operations for the six month period ended June 30, 2015 is not necessarily indicative of the results to be expected for the full year ending December 31, 2015. The unaudited interim financial statements should be read in conjunction with the audited financial statements and notes to financial statements that are presented in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 as filed with the Securities and Exchange Commission (“SEC”).

The Company has evaluated events and transactions occurring subsequent to the consolidated balance sheet date of June 30, 2015 for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

Note 2 - Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheets and statements of operations for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change include the determination of the allowance for loan losses and its related provision, the valuation allowance on the deferred tax asset, and the estimate of the fair value of assets held for sale.

Note 3 - Earnings (loss) per common share

The following table presents the basic and diluted earnings (loss) per common share computation (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Numerator				
Net income (loss) - basic and diluted	\$ 84	\$ (33)	\$ 79	\$ (690)
Preferred stock dividend and accretion	(167)	(347)	(330)	(661)
Preferred stock principal forgiveness	-	-	4,404	-
Preferred stock dividend forgiveness	-	-	2,215	-
Net income (loss) available to common shareholders	\$ (83)	\$ (380)	\$ 6,368	\$ (1,351)
Denominator				
Weighted average shares outstanding - basic	1,388	334	909	334
Dilutive effect of common stock options and restricted stock awards	-	-	11	-
Weighted average shares outstanding - diluted	1,388	334	920	334
Earnings (loss) per share - basic	\$ (0.06)	\$ (1.14)	\$ 7.00	\$ (4.04)
Earnings (loss) per share - diluted	\$ (0.06)	\$ (1.14)	\$ 6.92	\$ (4.04)

Outstanding options and warrants to purchase common stock were considered in the computation of diluted earnings (loss) per share for the periods presented.

Stock options for 4,505 and 6,519 shares of common stock were not included in computing diluted earnings (loss) per share for the three and six months ended June 30, 2015 and 2014, respectively, because their effects were anti-dilutive. Warrants for 31,190 shares of common stock were not included in computing earnings (loss) per share in 2015 and 2014 because their effects were also anti-dilutive.

Note 4 – Investment securities available for sale

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At June 30, 2015 and December 31, 2014, all of our securities were classified as available-for-sale. The following table presents the composition of our investment portfolio at the dates indicated (dollars in thousands):

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	Par Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Average Yield
June 30, 2015						
US Government Agencies						
One to five years	\$ 10,000	\$ 10,193	\$ -	\$ (110)	\$ 10,083	1.09 %
Five to ten years	20,500	21,923	-	(659)	21,264	2.09 %
More than ten years	3,418	3,426	3	(5)	3,424	0.82 %
	33,918	35,542	3	(774)	34,771	1.49 %
Mortgage-backed securities						
One to five years	2,013	2,069	-	(33)	2,036	1.22 %
More than ten years	1,363	1,426	2	(15)	1,413	1.30 %
	3,376	3,495	2	(48)	3,449	1.29 %
Municipals						
More than ten years	1,130	1,260	-	(60)	1,200	3.72 %
Total investment securities	\$ 38,424	\$ 40,297	\$ 5	\$ (882)	\$ 39,420	1.54 %

December 31, 2014

US Government Agencies						
One to five years	\$ 10,000	\$ 10,324	\$ -	\$ (225)	\$ 10,099	1.10 %
Five to ten years	22,500	23,895	-	(647)	23,248	1.98 %
	32,500	34,219	-	(872)	33,347	1.71 %
Mortgage-backed securities						
More than ten years	471	484	2	(2)	484	0.31 %
Municipals						
Five to ten years	1,000	1,131	-	(20)	1,111	2.50 %
More than ten years	4,130	4,684	2	(86)	4,600	2.89 %
	5,130	5,815	2	(106)	5,711	2.82 %
Total investment securities	\$ 38,101	\$ 40,518	\$ 4	\$ (980)	\$ 39,542	1.85 %

Investment securities available for sale that have an unrealized loss position at June 30, 2015 and December 31, 2014 are detailed below (in thousands):

	Securities in a loss position for less than 12 Months		Securities in a loss position for more than 12 Months		Total	Unrealized
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Losses
June 30, 2015						
US Government Agencies	\$ 16,609	\$ (515)	\$ 16,176	\$ (259)	\$ 32,785	\$ (774)
Municipals	701	(22)	499	(38)	1,200	(60)
Mortgage-backed securities	3,091	(48)	-	-	3,091	(48)

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\$ 20,401 \$ (585) \$ 16,675 \$ (297) \$37,076 \$ (882)

December 31, 2014

US Government Agencies	\$ -	\$ -	\$ 33,347	\$ (872)	\$33,347	\$ (872)
Municipals	-	-	5,497	(106)	5,497	(106)
Mortgage-backed securities	-	-	363	(2)	363	(2)
	\$ -	\$ -	\$ 39,207	\$ (980)	\$39,207	\$ (980)

Management does not believe that any individual unrealized loss as of June 30, 2015 and December 31, 2014 is other than a temporary impairment. These unrealized losses are primarily attributable to changes in interest rates. As of June 30, 2015, management does not have the intent to sell any of the securities classified as available for sale and management believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of cost. Approximately \$10 million of these securities are pledged against current and potential fundings.

Note 5 – Loans and allowance for loan losses

The following table presents the composition of our loan portfolio (excluding mortgage loans held for sale) at the dates indicated (dollars in thousands):

	June 30, 2015		December 31, 2014	
	Amount	%	Amount	%
Construction and land development				
Residential	\$5,967	1.98 %	\$4,315	1.51 %
Commercial	25,548	8.48 %	25,152	8.80 %
	31,515	10.46 %	29,467	10.31 %
Commercial real estate				
Owner occupied	63,715	21.12 %	58,804	20.55 %
Non-owner occupied	38,231	12.67 %	38,892	13.59 %
Multifamily	8,989	2.98 %	11,438	4.00 %
Farmland	400	0.13 %	434	0.15 %
	111,335	36.91 %	109,568	38.29 %
Consumer real estate				
Home equity lines	19,533	6.48 %	20,082	7.02 %
Secured by 1-4 family residential				
First deed of trust	59,965	19.88 %	61,837	21.61 %
Second deed of trust	7,585	2.51 %	7,854	2.74 %
	87,083	28.87 %	89,773	31.37 %
Commercial and industrial loans (except those secured by real estate)	22,118	7.33 %	22,165	7.75 %
Guaranteed student loans	48,051	15.93 %	33,562	11.73 %
Consumer and other	1,527	0.50 %	1,611	0.55 %
Total loans	301,629	100.00 %	286,146	100.00 %
Deferred loan cost, net	1,060		722	
Less: allowance for loan losses	(5,567)		(5,729)	
	\$297,122		\$281,139	

The Company assigns risk rating classifications to its loans. These risk ratings are divided into the following groups:

Risk rated 1 to 4 loans are considered of sufficient quality to preclude an adverse rating. These assets generally are well protected by the current net worth and paying capacity of the obligor or by the value of the asset or underlying collateral;

- Risk rated 5 loans are defined as having potential weaknesses that deserve management's close attention;

Risk rated 6 loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any;

Risk rated 7 loans have all the weaknesses inherent in substandard loans, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable; and

Loans rated 6 or 7 are considered "Classified" loans for regulatory classification purposes.

The following tables provide information on the risk rating of loans at the dates indicated (in thousands):

	Risk Rated 1-4	Risk Rated 5	Risk Rated 6	Risk Rated 7	Total Loans
June 30, 2015					
Construction and land development					
Residential	\$ 5,967	\$ -	\$ -	\$ -	\$ 5,967
Commercial	22,355	1,582	1,611	-	25,548
	28,322	1,582	1,611	-	31,515
Commercial real estate					
Owner occupied	56,710	3,176	3,829	-	63,715
Non-owner occupied	35,845	1,706	680	-	38,231
Multifamily	8,784	205	-	-	8,989
Farmland	400	-	-	-	400
	101,739	5,087	4,509	-	111,335
Consumer real estate					
Home equity lines	17,758	187	1,588	-	19,533
Secured by 1-4 family residential					
First deed of trust	53,735	2,976	3,254	-	59,965
Second deed of trust	6,693	26	866	-	7,585
	78,186	3,189	5,708	-	87,083
Commercial and industrial loans (except those secured by real estate)					
Guaranteed student loans	20,492	353	1,273	-	22,118
Consumer and other	48,051	-	-	-	48,051
	1,422	68	37	-	1,527
Total loans	\$ 278,212	\$ 10,279	\$ 13,138	\$ -	\$ 301,629
	Risk Rated 1-4	Risk Rated 5	Risk Rated 6	Risk Rated 7	Total Loans
December 31, 2014					
Construction and land development					
Residential	\$ 3,946	\$ 205	\$ 164	\$ -	\$ 4,315
Commercial	20,641	1,622	2,889	-	25,152
	24,587	1,827	3,053	-	29,467
Commercial real estate					
Owner occupied	47,175	5,234	6,395	-	58,804

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Non-owner occupied	36,439	1,811	642	-	38,892
Multifamily	10,703	735	-	-	11,438
Farmland	413	-	21	-	434
	94,730	7,780	7,058	-	109,568
Consumer real estate					
Home equity lines	18,107	465	1,510	-	20,082
Secured by 1-4 family residential					
First deed of trust	52,513	4,763	4,561	-	61,837
Second deed of trust	6,456	434	964	-	7,854
	77,076	5,662	7,035	-	89,773
Commercial and industrial loans (except those secured by real estate)	19,026	2,297	390	452	22,165
Guaranteed student loans	33,562	-	-	-	33,562
Consumer and other	1,488	74	49	-	1,611
Total loans	\$ 250,469	\$ 17,640	\$ 17,585	\$ 452	\$ 286,146

The following table presents the aging of the recorded investment in past due loans and leases as of the dates indicated (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
June 30, 2015							
Construction and land development							
Residential	\$ -	\$ -	\$ -	\$ -	\$5,967	\$5,967	\$ -
Commercial	65	-	-	65	25,483	25,548	-
	65	-	-	65	31,450	31,515	-
Commercial real estate							
Owner occupied	378	-	-	378	63,337	63,715	-
Non-owner occupied	-	-	-	-	38,231	38,231	-
Multifamily	-	-	-	-	8,989	8,989	-
Farmland	-	-	-	-	400	400	-
	378	-	-	378	110,957	111,335	-
Consumer real estate							
Home equity lines	58	-	-	58	19,475	19,533	-
Secured by 1-4 family residential							
First deed of trust	420	-	-	420	59,545	59,965	-
Second deed of trust	-	-	-	-	7,585	7,585	-
	478	-	-	478	86,605	87,083	-
Commercial and industrial loans (except those secured by real estate)	7	-	-	7	22,111	22,118	-
Guaranteed student loans	3,420	-	9,632	13,052	34,999	48,051	9,632
Consumer and other	-	-	-	-	1,527	1,527	-
Total loans	\$ 4,348	\$ -	\$ 9,632	\$ 13,980	\$ 287,649	\$ 301,629	\$ 9,632
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
December 31, 2014							
Construction and land development							
Residential	\$ -	\$ -	\$ -	\$ -	\$4,315	\$4,315	\$ -
Commercial	92	391	-	483	24,669	25,152	-

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	92	391	-	483	28,984	29,467	-
Commercial real estate							
Owner occupied	715	-	-	715	58,089	58,804	-
Non-owner occupied	-	-	-	-	38,892	38,892	-
Multifamily	-	-	-	-	11,438	11,438	-
Farmland	-	-	-	-	434	434	-
	715	-	-	715	108,853	109,568	-
Consumer real estate							
Home equity lines	31	139	-	170	19,912	20,082	-
Secured by 1-4 family residential							
First deed of trust	-	153	-	153	61,684	61,837	-
Second deed of trust	56	-	-	56	7,798	7,854	-
	87	292	-	379	89,394	89,773	-
Commercial and industrial loans (except those secured by real estate)	-	47	-	47	22,118	22,165	-
Guaranteed student loans	671	392	720	1,783	31,779	33,562	720
Consumer and other	-	8	-	8	1,603	1,611	-
Total loans	\$ 1,565	\$ 1,130	\$ 720	\$ 3,415	\$ 282,731	\$ 286,146	\$ 720

Loans greater than 90 days past due are student loans that are guaranteed by the Department of Education which covers approximately 98% of the principal and interest. Accordingly, these loans will not be placed on nonaccrual status.

Loans are considered impaired when, based on current information and events it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Loans evaluated individually for impairment include non-performing loans, such as loans on non-accrual, loans past due by 90 days or more, restructured loans and other loans selected by management. The evaluations are based upon discounted expected cash flows or collateral valuations. If the evaluation shows that a loan is individually impaired, then a specific reserve is established for the amount of impairment. Impairment is evaluated in total for smaller-balance loans of a similar nature and on an individual loan basis for other loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible. Impaired loans are set forth in the following table as of the dates indicated (in thousands):

	June 30, 2015		
	Recorded	Unpaid Principal	Related
	Investment	Balance	Allowance
With no related allowance recorded			
Construction and land development			
Commercial	\$2,713	\$2,809	\$ -
Commercial real estate			
Owner occupied	2,837	2,837	-
Non-owner occupied	6,122	6,122	-
Multifamily	-	-	-
Farmland	-	-	-
	8,959	8,959	-
Consumer real estate			
Home equity lines	1,468	1,468	-
Secured by 1-4 family residential			
First deed of trust	6,868	6,868	-
Second deed of trust	959	1,394	-
	9,295	9,730	-
Commercial and industrial loans (except those secured by real estate)	120	178	-
Consumer and other	30	30	-
	21,117	21,706	-
With an allowance recorded			
Construction and land development			
Commercial	580	579	25
Commercial real estate			
Owner occupied	6,268	6,531	652
Non-Owner occupied	464	464	38
	6,732	6,995	690
Consumer real estate			
Secured by 1-4 family residential			
First deed of trust	1,428	1,415	224
Second deed of trust	360	353	153
	1,788	1,768	377
Commercial and industrial loans (except those secured by real estate)	421	684	20
	9,521	10,026	1,112
Total			
Construction and land development			
Commercial	3,293	3,388	25
	3,293	3,388	25
Commercial real estate			
Owner occupied	9,105	9,368	652
Non-owner occupied	6,586	6,586	38
	15,691	15,954	690
Consumer real estate			

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Home equity lines	1,468	1,468	-
Secured by 1-4 family residential,			
First deed of trust	8,296	8,283	224
Second deed of trust	1,319	1,747	153
	11,083	11,498	377
Commercial and industrial loans (except those secured by real estate)	541	862	20
Consumer and other	30	30	-
	\$30,638	\$31,732	\$ 1,112

	December 31, 2014		
	Recorded	Unpaid Principal	Related
	Investment	Balance	Allowance
With no related allowance recorded			
Construction and land development			
Residential	\$ 164	\$ 164	\$ -
Commercial	3,379	3,379	-
	3,543	3,543	-
Commercial real estate			
Owner occupied	1,686	1,686	-
Non-owner occupied	6,593	6,593	-
Multifamily	2,322	2,322	-
Farmland	21	450	-
	10,622	11,051	-
Consumer real estate			
Home equity lines	800	800	-
Secured by 1-4 family residential			
First deed of trust	6,485	6,493	-
Second deed of trust	1,103	1,373	-
	8,388	8,666	-
Commercial and industrial loans (except those secured by real estate)	263	365	-
Consumer and other	23	36	-
	22,839	23,661	-
With an allowance recorded			
Construction and land development			
Commercial	589	589	26
Commercial real estate			
Owner occupied	6,625	6,640	905
Consumer real estate			
Secured by 1-4 family residential			
First deed of trust	1,415	1,415	200
Second deed of trust	257	257	142
	1,672	1,672	342
Commercial and industrial loans (except those secured by real estate)	555	555	239
	9,441	9,456	1,512
Total			
Construction and land development			
Residential	164	164	-
Commercial	3,968	3,968	26
	4,132	4,132	26
Commercial real estate			
Owner occupied	8,311	8,326	905
Non-owner occupied	6,593	6,593	-

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Multifamily	2,322	2,322	-
Farmland	21	450	-
	17,247	17,691	905
Consumer real estate			
Home equity lines	800	800	-
Secured by 1-4 family residential,			
First deed of trust	7,900	7,908	200
Second deed of trust	1,360	1,630	142
	10,060	10,338	342
Commercial and industrial loans (except those secured by real estate)	818	920	239
Consumer and other	23	36	-
	\$32,280	\$33,117	\$ 1,512

The following is a summary of average recorded investment in impaired loans with and without a valuation allowance and interest income recognized on those loans for the periods indicated (in thousands):

	For the Three Months Ended June 30, 2015		For the Six Months Ended June 30, 2015	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded				
Construction and land development				
Residential	\$ -	\$ -	\$ 115	\$ 1
Commercial	2,617	27	2,791	66
	2,617	27	2,906	67
Commercial real estate				
Owner occupied	1,201	14	1,439	31
Non-owner occupied	6,384	70	6,473	157
Multifamily	-	-	481	6
Farmland	-	-	7	-
	7,585	84	8,400	194
Consumer real estate				
Home equity lines	605	-	702	4
Secured by 1-4 family residential				
First deed of trust	6,370	83	6,386	173
Second deed of trust	1,199	16	1,191	30
	8,174	99	8,279	207
Commercial and industrial loans (except those secured by real estate)	134	2	181	4
Consumer and other	22	-	20	1
	18,532	212	19,786	473
With an allowance recorded				
Construction and land development				
Commercial	625	7	606	11
Commercial real estate				
Owner occupied	6,534	50	6,565	116
Non-Owner occupied	220	11	161	12
	6,754	61	6,727	128
Consumer real estate				
Secured by 1-4 family residential				
First deed of trust	1,259	-	1,272	-
Second deed of trust	251	-	253	-
	1,510	-	1,525	-
Commercial and industrial loans (except those secured by real estate)	421	11	457	16
	9,310	79	9,315	155

Total

Construction and land development				
Residential	-	-	115	1
Commercial	3,242	34	3,397	77
	3,242	34	3,512	78
Commercial real estate				
Owner occupied	7,735	64	8,005	147
Non-owner occupied	6,604	81	6,634	169
Multifamily	-	-	481	6
Farmland	-	-	7	-
	14,339	145	15,127	322
Consumer real estate				
Home equity lines	605	-	702	4
Secured by 1-4 family residential,				
First deed of trust	7,629	83	7,657	173
Second deed of trust	1,450	16	1,444	30
	9,684	99	9,803	207
Commercial and industrial loans (except those secured by real estate)	555	13	638	20
Consumer and other	22	-	20	1
	\$ 27,842	\$ 291	\$ 29,101	\$ 628

	For the Three Months Ended June 30, 2014		For the Six Months Ended June 30, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded				
Construction and land development				
Residential	\$ 182	\$ -	\$ 384	\$ 2
Commercial	3,951	42	3,960	98
	4,133	42	4,344	100
Commercial real estate				
Owner occupied	2,970	38	2,345	65
Non-owner occupied	9,957	82	8,949	215
Multifamily	2,352	36	2,359	71
Farmland	21	-	21	-
	15,300	156	13,674	351
Consumer real estate				
Home equity lines	1,398	2	1,026	16
Secured by 1-4 family residential				
First deed of trust	7,990	108	7,649	193
Second deed of trust	1,224	19	1,090	33
	10,612	129	9,765	242
Commercial and industrial loans (except those secured by real estate)	821	10	758	23
Consumer and other	26	1	20	1
	30,892	338	28,561	717
With an allowance recorded				
Construction and land development				
Commercial	602	7	606	15
Commercial real estate				
Owner occupied	4,459	-	1,298	92
Non-Owner occupied	1,288	-	4,108	-
	5,747	-	5,406	92
Consumer real estate				
Secured by 1-4 family residential				
First deed of trust	1,848	2	1,951	2
Second deed of trust	107	3	108	3
	1,955	5	2,059	5
Commercial and industrial loans (except those secured by real estate)	115	-	116	
	8,419	12	8,187	112
Total				
Construction and land development				
Residential	182	-	384	2
Commercial	4,553	49	4,566	113

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	4,735	49	4,950	115
Commercial real estate				
Owner occupied	7,429	38	3,643	157
Non-owner occupied	11,245	82	13,057	215
Multifamily	2,352	36	2,359	71
Farmland	21	-	21	-
	21,047	156	19,080	443
Consumer real estate				
Home equity lines	1,398	2	1,026	16
Secured by 1-4 family residential,				
First deed of trust	9,838	110	9,600	195
Second deed of trust	1,331	22	1,198	36
	12,567	134	11,824	247
Commercial and industrial loans (except those secured by real estate)	936	10	874	23
Consumer and other	26	1	20	1
	\$ 39,311	\$ 350	\$ 36,748	\$ 829

Included in impaired loans are loans classified as troubled debt restructurings (“TDRs”). A modification of a loan’s terms constitutes a TDR if the creditor grants a concession to the borrower for economic or legal reasons related to the borrower’s financial difficulties that it would not otherwise consider. For loans classified as impaired TDRs, the Company further evaluates the loans as performing or nonperforming. If, at the time of restructure, the loan is not considered nonaccrual, it will be classified as performing. TDRs originally classified as nonperforming are able to be reclassified as performing if, subsequent to restructure, they experience six months of payment performance according to the restructured terms. The following is a summary of performing and nonaccrual TDRs and the related specific valuation allowance by portfolio segment as of the dates indicated (dollars in thousands):

	Total	Performing	Nonaccrual	Valuation Allowance
June 30, 2015				
Construction and land development				
Commercial	\$ 1,799	\$ 1,708	\$ 91	\$ -
	1,799	1,708	91	-
Commercial real estate				
Owner occupied	5,823	5,522	301	128
Non-owner occupied	4,205	4,205	-	-
	10,028	9,727	301	128
Consumer real estate				
Secured by 1-4 family residential				
First deed of trust	4,647	4,045	602	-
Second deed of trust	746	368	378	117
	5,393	4,413	980	117
Commercial and industrial loans (except those secured by real estate)	133	-	133	20
Consumer and other	13	-	13	-
	\$17,366	\$ 15,848	\$ 1,518	\$ 265
Number of loans	64	43	21	10

	Total	Performing	Nonaccrual	Specific Valuation Allowance
December 31, 2014				
Construction and land development				
Residential	\$7	\$ -	\$ 7	\$ -
Commercial	3,895	3,751	144	17
	3,902	3,751	151	17
Commercial real estate				
Owner occupied	6,317	5,149	1,168	325
Non-owner occupied	6,593	6,593	-	-
Multifamily	2,322	2,322	-	-
	15,232	14,064	1,168	325
Consumer real estate				
Home equity lines	-	-	-	-
Secured by 1-4 family residential				
First deeds of trust	6,990	5,494	1,496	200
Second deeds of trust	762	658	104	5
	7,752	6,152	1,600	205
Commercial and industrial loans (except those secured by real estate)	239	-	239	12
Consumer and other	16	-	16	-
	\$27,141	\$ 23,967	\$ 3,174	\$ 559
Number of loans	107	77	30	21

The following table provides information about TDRs identified during the indicated periods (dollars in thousands):

	Six Months Ended June 30, 2015			Six Months Ended June 30, 2014		
	Number of Loans	Pre- Modification Recorded Balance	Post- Modification Recorded Balance	Number of Loans	Pre- Modification Recorded Balance	Post- Modification Recorded Balance
Construction and land development						
Commercial	-	\$ -	\$ -	1	\$ 45	\$ 45
	-	-	-	1	45	45
Commercial real estate						
Owner occupied	-	-	-	1	344	344
Non-owner occupied	-	-	-	1	412	412
	-	-	-	2	756	756
Consumer real estate						
Secured by 1-4 family residential						

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First deed of trust	-	-	-	2	182	182
	-	-	-	2	182	182
	-	\$ -	\$ -	5	\$ 983	\$ 983

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The following table provides information about defaults on TDRs identified for the indicated periods (dollars in thousands):

Six Months Ended June 30, 2015	Six Months Ended June 30, 2014		
Number of Loans	Recorded Balance	Number of Long-Term Obligations	Recorded

Long-Term Debt

On March 12, 2007 we issued \$500 million of 5.40% senior unsecured notes due on March 15, 2012 (the 2012 Notes) and \$500 million of 5.75% senior unsecured notes due on March 15, 2017 (the 2017 Notes) (together, the Notes), for a total principal amount of \$1 billion. In March 2012 we repaid the 2012 Notes when they became due using cash from operations. We carried the 2017 Notes at face value less the unamortized discount in long-term debt on our balance sheets at January 31, 2013 and July 31, 2012. The 2017 Notes are redeemable by Intuit at any time, subject to a make-whole premium, and include covenants that limit our ability to grant liens on our facilities and to enter into sale and leaseback transactions, subject to significant allowances. We paid \$14 million in cash for interest on the Notes during the six months ended January 31, 2013 and \$28 million during the six months ended January 31, 2012.

Other Long-Term Obligations

Other long-term obligations were as follows at the dates indicated:

(In millions)	January 31, 2013	July 31, 2012
Total license fee payable	\$56	\$54
Total deferred rent	55	53
Long-term deferred revenue	45	42
Long-term income tax liabilities	43	41
Long-term deferred income tax liabilities	15	—
Other	7	5
Total long-term obligations	221	195
Less current portion (included in other current liabilities)	(19) (19
Long-term obligations due after one year	\$202	\$176

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7. Income Taxes

Effective Tax Rate

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 adding the effects of any discrete income tax items specific to the period.

In January 2013 the American Taxpayer Relief Act of 2012 was signed into law. The Act includes a reinstatement of the federal research and experimentation credit through December 31, 2013 that was retroactive to January 1, 2012. We recorded a discrete tax benefit of approximately \$12 million for the retroactive effect during the three months ended January 31, 2013.

Our effective tax rate for the three months ended January 31, 2013 was approximately 18% and we recorded an \$8 million tax benefit on pretax income of \$12 million for the six months ended January 31, 2013. Excluding discrete tax benefits primarily related to the reinstatement of the federal research and experimentation credit, our effective tax rate for the three and six months ended January 31, 2013 was approximately 33% and did not differ significantly from the federal statutory rate of 35%. The benefits we received from the domestic production activities deduction and the federal research and experimentation credit were substantially offset by state income taxes in both periods.

Our effective tax rates for the three and six months ended January 31, 2012 were approximately 34% and 33% and did not differ significantly from the federal statutory rate of 35%. The benefits we received from the domestic production activities deduction and the federal research and experimentation credit were substantially offset by state income taxes in both periods.

Unrecognized Tax Benefits and Other Considerations

The total amount of our unrecognized tax benefits at July 31, 2012 was \$38 million. Net of related deferred tax assets, unrecognized tax benefits were \$28 million at that date. If we were to recognize these net benefits, our income tax expense would reflect a favorable net impact of \$28 million. There were no material changes to these amounts during the six months ended January 31, 2013. We do not believe that it is reasonably possible that there will be a significant increase or decrease in our unrecognized tax benefits over the next 12 months.

8. 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. We repurchased 3.4 million shares for \$200 million under these programs during the six months ended January 31, 2013 and 11.4 million shares for \$586 million under these programs during the six months ended January 31, 2012. At January 31, 2013, we had authorization from our Board of Directors to expend up to an additional \$1.5 billion for stock repurchases through August 15, 2014. Future stock repurchases under the current program are at the discretion of management, and authorization of future stock repurchase programs is subject to the final determination of our Board of Directors.

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.

Dividends on Common Stock

During the six months ended January 31, 2013 we declared and paid quarterly cash dividends of \$0.34 per share of outstanding common stock that totaled approximately \$101 million. In February 2013 our Board of Directors declared a quarterly cash dividend of \$0.17 per share of outstanding common stock payable on April 18, 2013 to stockholders of record at the close of business on April 10, 2013. Future declarations of dividends and the establishment of future record dates and payment dates are subject to the final determination of our Board of Directors.

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Share-Based Compensation Expense

The following table summarizes the total share-based compensation expense that we recorded for the periods shown.

(In millions, except per share amounts)	Three Months Ended		Six Months Ended	
	January 31, 2013	January 31, 2012	January 31, 2013	January 31, 2012
Cost of revenue	\$2	\$2	\$4	\$3
Selling and marketing	17	15	35	29
Research and development	14	14	28	26
General and administrative	14	12	29	25
Total share-based compensation expense	47	43	96	83
Income tax benefit	(16)	(14)	(32)	(27)
Decrease in net income	\$31	\$29	\$64	\$56
Decrease in net income per share:				
Basic	\$0.10	\$0.10	\$0.22	\$0.19
Diluted	\$0.10	\$0.09	\$0.21	\$0.18

Share-Based Awards Available for Grant

A summary of share-based awards available for grant under our 2005 Equity Incentive Plan for the six months ended January 31, 2013 was as follows:

(Shares in thousands)	Shares Available for Grant
Balance at July 31, 2012	21,760
Options granted	(106)
Restricted stock units granted (1)	(901)
Share-based awards canceled/forfeited/expired (1)(2)	1,399
Balance at January 31, 2013	22,152

Under the terms of our Amended and Restated 2005 Equity Incentive Plan, as amended through July 24, 2012 (2005 Equity Incentive Plan), RSUs granted from the pool of shares available for grant on or after November 1, (1) 2010 reduce the pool by 2.3 shares for each share granted. RSUs forfeited and returned to the pool of shares available for grant increase the pool by 2.3 shares for each share forfeited.

Stock options and restricted stock units canceled, expired or forfeited under our 2005 Equity Incentive Plan, are (2) returned to the pool of shares available for grant. Stock options and restricted stock units canceled, expired or forfeited under older expired plans are not returned to the pool of shares available for grant.

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Stock Option Activity and Related Share-Based Compensation Expense

A summary of stock option activity for the six months ended January 31, 2013 was as follows:

(Shares in thousands)	Options Outstanding	
	Number of Shares	Weighted Average Exercise Price Per Share
Balance at July 31, 2012	18,061	\$37.49
Options granted	106	60.30
Options exercised	(3,880)	32.37
Options canceled or expired	(336)	40.67
Balance at January 31, 2013	13,951	\$39.02
Exercisable at January 31, 2013	8,620	\$32.68

At January 31, 2013, there was approximately \$53 million of unrecognized compensation cost related to non-vested stock options that we expect to recognize as expense in the future. We will adjust unrecognized compensation cost for future changes in estimated forfeitures. We expect to recognize that cost over a weighted average vesting period of 2.0 years.

Restricted Stock Unit Activity and Related Share-Based Compensation Expense

A summary of restricted stock unit activity for the six months ended January 31, 2013 was as follows:

(Shares in thousands)	Restricted Stock Units	
	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at July 31, 2012	9,607	\$46.79
Granted	392	60.30
Vested	(875)	34.80
Forfeited	(511)	47.08
Nonvested at January 31, 2013	8,613	\$48.61

At January 31, 2013, there was approximately \$216 million of unrecognized compensation cost related to non-vested RSUs and restricted stock that we expect to recognize as expense in the future. We will adjust unrecognized compensation cost for future changes in estimated forfeitures. We expect to recognize that cost over a weighted average vesting period of 2.1 years.

9. Litigation

On January 13, 2012, two putative class actions were filed against Intuit Inc. in connection with our TurboTax income tax preparation software: Smith v. Intuit Inc. (U.S. District Court, Northern District of California) and Quildon v. Intuit Inc. (California Superior Court, Santa Clara County). The plaintiffs in both cases had asserted that the fees charged for the refund processing service offered within TurboTax are “refund anticipation loans” and the disclosures about those fees do not comply with California and federal laws. The Smith case was brought in federal court on behalf of a proposed nationwide class and subclasses; the Quildon case was brought in state court on behalf of a proposed California class and subclasses. In January 2013, for the purposes of settlement and without any admission of wrongdoing or liability, Intuit reached an agreement in principle to resolve all claims raised in the Smith and Quildon matters for an amount that is not material to our consolidated financial statements. We accrued that amount in

the second quarter of fiscal 2013. The terms of the proposed settlement are subject to the approval of the court, which could approve, reject, or suggest modifications to those terms. We currently believe that the likelihood of a material change to the proposed settlement amount is remote.

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, in addition to any amounts accrued, the amount of potential losses, if any, for any pending claims of any type (either alone or combined) will not have a material impact on our consolidated financial statements. The

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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.

10. Segment Information

We have defined seven reportable segments 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. Our chief operating decision maker organizes and manages our business primarily on the basis of product and service offerings.

All of our business segments except Other Businesses operate primarily in the United States and sell primarily to customers in the United States. International total net revenue was less than 5% of consolidated total net revenue for all periods presented.

We include expenses such as corporate selling and marketing, product development, and general and administrative expenses and share-based compensation expenses that are not allocated to specific segments in unallocated corporate items. Unallocated corporate items also include amortization of acquired technology, amortization of other acquired intangible assets, and goodwill and intangible asset impairment charges.

The accounting policies of our reportable segments are the same as those described in the summary of 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, 2012. 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 table shows our financial results by reportable segment for the periods indicated. Results for our Financial Management Solutions segment have been adjusted for all periods presented to exclude results for our Intuit Websites business, which we classified as discontinued operations in the fourth quarter of fiscal 2012. See Note 4, "Discontinued Operations," for more information.

Beginning in the first quarter of fiscal 2013, we moved the segment revenue and operating results for our Mint business from Personal Finance in our Other Businesses segment to our Financial Services segment. Since segment revenue and operating results for Mint were not significant for any period presented, we did not reclassify previously reported segment results to reflect this change. As a result of the reorganization of the reporting structure of Personal Finance and synergies achieved during the time it was managed as one business, we allocated a portion of the total goodwill associated with that reporting unit to Personal Finance and a portion to Mint, which was transferred to the Financial Services reporting unit. We based the allocation of the total goodwill on the fair value of the remaining Personal Finance reporting unit compared with the fair value of the Mint component at the time of the transfer. The subsequent financial performance of the Personal Finance reporting unit relative to the projections used for the allocation of goodwill will determine the realizability of that goodwill.

(In millions)	Three Months Ended		Six Months Ended	
	January 31, 2013	January 31, 2012	January 31, 2013	January 31, 2012
Net revenue:				
Financial Management Solutions	\$208	\$179	\$388	\$328
Employee Management Solutions	144	128	279	249
Payment Solutions	117	99	231	193
Consumer Tax	216	295	252	336
Accounting Professionals	123	131	155	158
Financial Services	93	92	186	181
Other Businesses	67	75	124	129
Total net revenue	\$968	\$999	\$1,615	\$1,574
Operating income from continuing operations:				
Financial Management Solutions	\$75	\$69	\$133	\$120
Employee Management Solutions	85	72	170	147
Payment Solutions	24	23	46	47
Consumer Tax	24	114	(3)	86
Accounting Professionals	72	81	62	67
Financial Services	20	25	35	43
Other Businesses	10	12	16	9
Total segment operating income	310	396	459	519
Unallocated corporate items:				
Share-based compensation expense	(47)	(43)	(96)	(83)
Other common expenses	(157)	(145)	(314)	(288)
Amortization of acquired technology	(6)	(3)	(11)	(6)
Amortization of other acquired intangible assets	(7)	(10)	(14)	(31)
Total unallocated corporate items	(217)	(201)	(435)	(408)
Total operating income from continuing operations	\$93	\$195	\$24	\$111

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ITEM 2

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

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. Significant changes since our most recent Annual Report on Form 10-K in the Critical Accounting Policies and Estimates that we believe are important to understanding the assumptions and judgments underlying our financial statements.

Results of Operations that includes 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.

You should note that this MD&A discussion contains forward-looking statements that involve risks and uncertainties. Please see Item 1A in Part II of this Quarterly Report on Form 10-Q 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 Part I, Item 1 of this report and our Annual Report on Form 10-K for the fiscal year ended July 31, 2012. We acquired Demandforce, Inc. in May 2012 and we have included the results of operations for that business in our consolidated results of operations from the date of acquisition. We have also reclassified our financial statements for all periods presented to reflect our Intuit Websites business as discontinued operations. See "Results of Operations – Discontinued Operations" later in this Item 2 for more information. Unless otherwise noted, the following discussion pertains only to our continuing operations.

Executive Overview

This overview provides a high-level discussion of our business and growth strategy as well as the trends, opportunities, challenges, and risks that affect our performance and operating results. Understanding our growth strategy and the trends that affect our business provides context for the discussion of financial results and future opportunities which follows this overview. This summary is not intended to be exhaustive, nor is it a substitute for the detailed discussion and analysis provided elsewhere in this Quarterly Report on Form 10-Q.

About Intuit

Intuit is a leading provider of business and financial management solutions for small businesses, consumers, accounting professionals and financial institutions. We organize our portfolio of businesses into four principal categories – Small Business Group, Tax, Financial Services and Other Businesses. These categories include seven financial reporting segments.

Small Business Group: This category includes three segments – Financial Management Solutions, Employee Management Solutions, and Payment Solutions – targeting the small business market and represented 39% of our revenue in fiscal 2012.

Our Financial Management Solutions segment includes QuickBooks financial and business management software and services; QuickBooks technical support; financial supplies; and Demandforce, which provides online marketing and customer communication solutions.

Our Employee Management Solutions segment provides payroll products and services.

Our Payment Solutions segment provides merchant services, including credit and debit card processing, electronic check conversion and automated clearing house services; Web-based transaction processing services for online merchants; and GoPayment mobile payment processing services.

Tax: This category includes two segments – Consumer Tax and Accounting Professionals – and represented 45% of our revenue in fiscal 2012.

Our Consumer Tax segment includes TurboTax income tax preparation products and services for consumers and small businesses.

Our Accounting Professionals segment includes Lacerte, ProSeries and Intuit Tax Online professional tax products and services. This segment also includes QuickBooks Premier Accountant Edition and the QuickBooks ProAdvisor Program for accounting professionals.

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Financial Services: This segment consists primarily of digital banking solutions - both online and mobile - for financial institutions and Mint online personal finance services. This segment represented 9% of our revenue in fiscal 2012.

Other Businesses: This segment represented 7% of our revenue in fiscal 2012 and includes our global businesses, primarily in Canada, the United Kingdom, and Singapore; Quicken personal finance products and services; and Intuit Health online patient-to-provider communication solutions.

Our Growth Strategy

We see significant opportunities to drive future growth, based on our assessment of key technology and demographic trends and our focus on building – and enabling others to build – innovative offerings to simplify the business of life for our customers. In the first quarter of fiscal 2013 we refined our three-point growth strategy:

Focus on the product – we call it “Delivering awesome product experiences.” Customers increasingly demand anytime, anywhere, any device access to their information. Therefore, we are increasingly focused on reimagining our products with a mobile-first, and in some cases mobile-only, design. Our TurboTax solutions, for example, let customers prepare and file their entire tax returns online, via tablet, mobile phone or the desktop. In addition, we believe that a key factor in growing our customer base is to deliver an amazing first-use experience, so our customers can get the value they expect as easily and quickly as possible.

Creating network effect platforms – we call it “Enabling the contributions of others.” We expect to solve problems faster and more efficiently for our growing base of customers by moving to more open platforms with application programming interfaces that enable the contributions of end users and third-party developers. One example of this is QuickBooks Online, which now allows small business customers all over the world to contribute to localizing the product.

Leveraging our data for our customers' benefit – we call it “Enabling data to create delight.” Our 60 million customers are generating valuable data that we seek to appropriately use to deliver better products and breakthrough benefits by eliminating the need to enter data, helping them make better decisions and improving transactions and interactions.

Industry Trends and Seasonality

The industry in which we operate is dynamic and highly competitive, and we expect it to remain so in the future. The markets for software and related services, especially highly-available connected services, are characterized by rapid technological change, shifting customer needs, and frequent new product introductions and enhancements.

Competition and expertise in many of the markets we serve, particularly small business services, consumer tax, and online and mobile banking, have grown over the past few years and we expect this trend to continue. There are also large, cloud-based service companies who innovate quickly and serve small businesses and consumers. While today our competition with such companies may be limited, as we and those companies grow, our competition with them may increase. In recent years the widespread availability of the Internet, the emergence of mobile devices, and the explosion of social media have accelerated the pace of change and revolutionized the way that people throughout the world manage important financial tasks. The result is a global market that is shifting from traditional services that are paper-based, human-produced, and brick-and-mortar bound, to one where people understand, demand, and embrace the benefits of connected services. This trend toward connected services is the primary driver of the strategies in all of our businesses.

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 from November through April. In our Consumer Tax business, a greater proportion of our revenue has shifted to later in this seasonal period due in part to the growth in sales of TurboTax Online, for which we recognize revenue when tax returns are printed or electronically filed. The seasonality of our Consumer Tax and Accounting Professionals revenue is also affected by the timing of the availability of tax forms from taxing agencies and the ability of those agencies to receive electronic tax return submissions. Delays in the availability of tax forms or the ability of taxing agencies to receive submissions can cause

revenue to shift between our fiscal quarters. 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. During these quarters, revenue from our tax businesses is minimal while core operating expenses such as research and development continue at relatively consistent levels. We believe the seasonality of our revenue and profitability is likely to continue in the future. In our MD&A we often focus on year-to-date results for our seasonal businesses as they are generally more meaningful than quarterly results.

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Federal tax legislation occurred on January 2, 2013 and the Internal Revenue Service announced that it would accept no 2012 federal income tax returns before January 30, 2013, about two weeks later than the previous tax season and just two days before the end of our second fiscal quarter. As a result, we believe that some consumers delayed purchasing tax software and filing their federal tax returns, and we estimate this will shift approximately \$140 million in revenue for our Consumer Tax offerings from the second quarter of fiscal 2013 to the third quarter of fiscal 2013. See “Results of Operations - Business Segment Results” later in this Item 2 for more information.

Key Challenges and Risks

Our growth strategy depends upon our ability to initiate and embrace disruptive technology trends, to enter new markets, and to drive broad adoption of the products and services we develop and market. Our future growth also increasingly depends on the strength of our third-party business relationships and our ability to continue to develop, maintain and strengthen new and existing relationships. To remain competitive and continue to grow, we are investing significant resources in our product development, marketing, and sales capabilities, and we expect to continue to do so in the future.

As we continue transitioning to offer more connected services, the ongoing operation and availability of our information technology and communication systems and those of our external service providers is becoming increasingly important. Because we help customers manage their financial lives, we face risks associated with the hosting, collection, use and retention of personal customer information and data. We are investing significant management attention and resources in our information technology infrastructure and in our privacy and security capabilities, and we expect to continue to do so in the future.

For a complete discussion of the most significant risks and uncertainties affecting our business, please see “Forward-Looking Statements and Risk Factors” in Item 1A of this Report.

Overview of Financial Results

The most important financial indicators that we use to assess our business are revenue growth and operating income growth for the company as a whole and for each business segment; operating income margin; earnings per share; and cash flow from operations. We also track certain non-financial drivers of revenue growth and, when material, identify them in the applicable discussions of business segment results below. These non-financial indicators include, for example, customer growth and retention, and, in certain businesses, transaction volume. Customers for our connected services offerings have generally grown faster than those for our traditional software offerings, reflecting our strategic focus on connected services over the past few years. Connected services generated \$2.7 billion or 64% of our total revenue in fiscal 2012, compared with 50% of our total revenue five years ago. We expect connected services revenue as a percentage of our total revenue to continue to grow in the future. We track transaction volume in businesses such as our Payments Solutions business, where total credit and debit card transaction volume, which correlates strongly with the macroeconomic environment, contributes to revenue growth.

Total net revenue for the first six months of fiscal 2013 was \$1.6 billion, an increase of 3% compared with the same period of fiscal 2012. Our Small Business Group was the key driver of revenue growth in the first six months of fiscal 2013. Revenue in our Small Business Group grew 17% compared with the same period a year ago due to growth in connected services offerings and our May 2012 acquisition of Demandforce. Revenue in our Consumer Tax segment was down 25% in the first six months of fiscal 2013. As discussed in “Industry Trends and Seasonality” above, we believe that the delay in the Internal Revenue Service's acceptance of 2012 federal income tax returns will shift some Consumer Tax revenue from the second quarter of fiscal 2013 to the third quarter of fiscal 2013.

Operating income from continuing operations for the first six months of fiscal 2013 was \$24 million, a decrease of 78% compared with the same period of fiscal 2012. Higher revenue was more than offset by higher costs and expenses, including higher spending for staffing and for advertising and other marketing programs. Net income from continuing operations decreased 68% in the first six months of fiscal 2013 compared with the same period of fiscal 2012 due to the lower operating income partially offset by a discrete tax benefit that we recorded in the fiscal 2013 period. Diluted net income per share from continuing operations for the first six months of fiscal 2013 decreased 67% to \$0.07, in line with the decrease in net income.

We ended the first six months of fiscal 2013 with cash, cash equivalents and investments totaling \$678 million. During the first six months of fiscal 2013 we generated cash from operations, from the issuance of common stock

under employee stock plans, and from the sale of our Intuit Websites business. During the same period we used cash for the repurchase of shares of our common stock under our stock repurchase programs, for the payment of cash dividends, and for capital expenditures. At January 31, 2013, we had authorization from our Board of Directors to expend up to an additional \$1.5 billion for stock repurchases through August 15, 2014.

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Critical Accounting Policies and Estimates

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 in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of our Annual Report on Form 10-K for the fiscal year ended July 31, 2012 have the greatest potential impact on our financial statements, so we consider them to be our critical accounting policies and estimates. We believe that there were no significant changes in those critical accounting policies and estimates during the first six months of fiscal 2013. Senior management has reviewed the development and selection of our critical accounting policies and estimates and their disclosure in this Quarterly Report on Form 10-Q with the Audit and Risk Committee of our Board of Directors.

Results of Operations

Financial Overview

(Dollars in millions, except per share amounts)

	Q2 FY13	Q2 FY12	\$ Change	% Change	YTD Q2 FY13	YTD Q2 FY12	\$ Change	% Change	
Total net revenue	\$968	\$999	\$(31)	(3)%	\$1,615	\$1,574	\$41	3	%
Operating income from continuing operations	93	195	(102)	(52)%	24	111	(87)	(78)	%
Net income from continuing operations	71	121	(50)	(41)%	20	63	(43)	(68)	%
Diluted net income per share from continuing operations	\$0.23	\$0.40	\$(0.17)	(43)%	\$0.07	\$0.21	\$(0.14)	(67)	%

Current Fiscal Quarter

Total net revenue decreased \$31 million or 3% in the second quarter of fiscal 2013 compared with the same quarter of fiscal 2012. Revenue was up 16% in our Small Business Group. Financial Management Solutions segment revenue increased 17%, or 6% excluding revenue from Demandforce, which we acquired in May 2012. Higher organic revenue in this segment was driven by continuing growth in QuickBooks Online revenue. Employee Management Solutions segment revenue increased 13% due to favorable offering mix, improved customer adoption of payroll direct deposit services, and price increases for desktop payroll customers. Payment Solutions segment revenue increased 18% due to fee structure changes and higher total card transaction volume. In our tax businesses, Consumer Tax segment revenue was down 27% and Accounting Professionals segment revenue declined 7%. We believe that some Consumer Tax revenue will shift from the second quarter of fiscal 2013 to the third quarter of fiscal 2013 as discussed in "Executive Overview - Industry Trends and Seasonality" above. See "Business Segment Results" later in this Item 2 for more information about the results for all of our business segments.

Operating income from continuing operations decreased 52% in the second quarter of fiscal 2013 compared with the same quarter of fiscal 2012 due to the decrease in revenue described above and higher costs and operating expenses. Total operating expenses increased \$68 million in the fiscal 2013 quarter due to higher expenses for staffing and for advertising and other marketing programs in our Financial Management Solutions and Consumer Tax segments. See "Operating Expenses" later in this Item 2 for more information.

Net income from continuing operations decreased 41% in the second quarter of fiscal 2013 compared with the same quarter of fiscal 2012. Interest expense was lower in the second quarter of fiscal 2013 due to the repayment of debt in fiscal 2012. Our effective tax rate for the second quarter of fiscal 2013 was 18% and our effective tax rate for the second quarter of fiscal 2012 was 34%. See “Non-Operating Income and Expenses – Interest Expense,” “Interest and Other Income, Net,” and “Income Taxes” later in this Item 2 for more information. Diluted net income per share from continuing operations for the second quarter of fiscal 2013 decreased 43% to \$0.23, in line with the decrease in net income for that quarter.

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Fiscal Year to Date

Total net revenue increased \$41 million or 3% in the first six months of fiscal 2013 compared with the same period of fiscal 2012. Revenue was up 17% in our Small Business Group, which was the main driver of revenue growth in the fiscal 2013 period. Financial Management Solutions segment revenue increased 18%, or 7% excluding revenue from Demandforce, which we acquired in May 2012. Higher organic revenue in this segment was driven by continuing growth in QuickBooks Online revenue. Employee Management Solutions segment revenue increased 12% due to favorable offering mix, improved customer adoption of payroll direct deposit services, and price increases for desktop payroll customers. Payment Solutions segment revenue increased 19% due to fee structure changes and higher total card transaction volume. In our tax businesses, Consumer Tax segment revenue decreased 25% and Accounting Professionals segment revenue declined 2%. We believe that some Consumer Tax revenue will shift from the second quarter of fiscal 2013 to the third quarter of fiscal 2013 as discussed in “Executive Overview - Industry Trends and Seasonality” above. See “Business Segment Results” later in this Item 2 for more information about the results for all of our business segments.

Operating income from continuing operations decreased 78% in the first six months of fiscal 2013 compared with the same period of fiscal 2012. The increase in revenue described above was more than offset by higher costs and operating expenses. Total operating expenses increased \$110 million in the fiscal 2013 period due to higher expenses for staffing and for advertising and other marketing programs in our Financial Management Solutions and Consumer Tax segments. See “Operating Expenses” later in this Item 2 for more information.

Net income from continuing operations decreased 68% in the first six months of fiscal 2013 compared with the same period of fiscal 2012. Interest expense was lower in the fiscal 2013 period due to the repayment of debt in fiscal 2012. We recorded a \$10 million gain on the sale of a stock warrant in interest and other income in the first quarter of fiscal 2012. We recorded an \$8 million income tax benefit on pretax income of \$12 million for the first six months of fiscal 2013 due to the retroactive reinstatement of the research and experimentation tax credit. Our effective tax rate for the first six months of fiscal 2012 was 33%. See “Non-Operating Income and Expenses – Interest Expense,” “Interest and Other Income, Net,” and “Income Taxes” later in this Item 2 for more information. Diluted net income per share from continuing operations for the first six months of fiscal 2013 decreased 67% to \$0.07, in line with the decrease in net income for that period.

Business Segment Results

The information below is organized in accordance with our seven reportable business segments. All of our business segments except Other Businesses operate primarily in the United States and sell primarily to customers in the United States. International total net revenue was less than 5% of consolidated total net revenue for all periods presented. Segment operating income or loss is segment net revenue less segment cost of revenue and operating expenses. See “Executive Overview – Industry Trends and Seasonality” earlier in this Item 2 for a description of the seasonality of our business. Segment expenses do not include certain costs, such as corporate selling and marketing, product development, and general and administrative expenses and share-based compensation expenses, which are not allocated to specific segments. These unallocated costs totaled \$410 million in the first six months of fiscal 2013 and \$371 million in the first six months of fiscal 2012. Unallocated costs increased in the fiscal 2013 period due to increases in corporate product development and selling and marketing expenses in support of the growth of our businesses, and to a lesser extent to increases in share-based compensation expenses. Segment expenses also do not include amortization of acquired technology, amortization of other acquired intangible assets, and goodwill and intangible asset impairment charges. See Note 10 to the financial statements in Part I, Item 1 of this report for reconciliations of total segment operating income or loss to consolidated operating income or loss for each fiscal period presented.

Beginning in the first quarter of fiscal 2013, we moved the segment revenue and operating results for our Mint business from Personal Finance in our Other Businesses segment to our Financial Services segment. Since segment revenue and operating results for Mint were not significant for any period presented, we did not reclassify previously reported segment results to reflect this change. As a result of the reorganization of the reporting structure of Personal Finance and synergies achieved during the time it was managed as one business, we allocated a portion of the total goodwill associated with that reporting unit to Personal Finance and a portion to Mint, which was transferred to the

Financial Services reporting unit. We based the allocation of the total goodwill on the fair value of the remaining Personal Finance reporting unit compared with the fair value of the Mint component at the time of the transfer. The subsequent financial performance of the Personal Finance reporting unit relative to the projections used for the allocation of goodwill will determine the realizability of that goodwill.

We calculate revenue growth rates and segment operating margin figures using dollars in thousands. Those results may vary from figures calculated using the dollars in millions presented below.

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Financial Management Solutions

(Dollars in millions)	Q2 FY13	Q2 FY12	% Change		YTD Q2 FY13	YTD Q2 FY12	% Change	
Product revenue	\$112	\$116			\$201	\$205		
Service and other revenue	96	63			187	123		
Total segment revenue	\$208	\$179	17	%	\$388	\$328	18	%
% of total revenue	22	% 18	%		24	% 21	%	
Segment operating income	\$75	\$69	6	%	\$133	\$120	9	%
% of related revenue	36	% 39	%		34	% 37	%	

Financial Management Solutions (FMS) product revenue is derived primarily from QuickBooks desktop software products and financial supplies such as paper checks, envelopes, invoices, business cards and business stationery. FMS service and other revenue is derived primarily from QuickBooks Online; QuickBooks technical support plans; Demandforce, which provides online marketing and customer communication solutions for small businesses; QuickBase; and royalties from small business online services.

FMS total net revenue increased \$29 million or 17% in the second quarter of fiscal 2013 and \$60 million or 18% in the first six months of fiscal 2013 compared with the same periods of fiscal 2012. When adjusted to exclude revenue from Demandforce, which we acquired in May 2012, FMS revenue was 6% higher in the second quarter of fiscal 2013 and 7% higher in the first six months of fiscal 2013. U.S. QuickBooks Online subscribers grew 24%, driving the organic revenue growth in this segment in both fiscal 2013 periods. U.S. QuickBooks desktop units were down 18% in the second quarter of fiscal 2013 compared with the second quarter of fiscal 2012, due in part to smaller discounts in the retail channel and a continuing trend toward customer adoption of our online QuickBooks offerings.

FMS segment operating income as a percentage of related revenue decreased in the second quarter and first six months of fiscal 2013 compared with the same periods of fiscal 2012. The increases in segment revenue described above were partially offset by higher segment costs and expenses that included costs and expenses for Demandforce. For the first six months of fiscal 2013 staffing expenses were about \$39 million higher, driven by an increase in headcount, and advertising and other marketing program expenses also increased.

Employee Management Solutions

(Dollars in millions)	Q2 FY13	Q2 FY12	% Change		YTD Q2 FY13	YTD Q2 FY12	% Change	
Product revenue	\$74	\$69			\$145	\$137		
Service and other revenue	70	59			134	112		
Total segment revenue	\$144	\$128	13	%	\$279	\$249	12	%
% of total revenue	15	% 13	%		17	% 16	%	
Segment operating income	\$85	\$72	17	%	\$170	\$147	16	%
% of related revenue	59	% 57	%		61	% 59	%	

Employee Management Solutions (EMS) product revenue is derived primarily from QuickBooks Basic Payroll and QuickBooks Enhanced Payroll, which are products sold on a subscription basis that offer payroll tax tables, payroll reports, federal and state payroll tax forms, and electronic tax payment and filing to small businesses that prepare their own payrolls. EMS service and other revenue is derived primarily from QuickBooks Online Payroll, QuickBooks Assisted Payroll, Intuit Online Payroll, Intuit Full Service Payroll, fees for payroll direct deposit services, and fees for other small business payroll and employee management services. Service and other revenue for this segment also includes interest earned on funds held for customers.

EMS total net revenue increased \$16 million or 13% in the second quarter of fiscal 2013 and \$30 million or 12% in the first six months of fiscal 2013 compared with the same periods of fiscal 2012. Revenue was higher in the fiscal 2013 periods due to customer growth in our Enhanced desktop payroll and online payroll solutions, improved customer adoption of payroll direct

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deposit services, and price increases for desktop payroll customers. At January 31, 2013, total U.S. payroll customers were up 3% while U.S. online payroll customers were up 18% compared with January 31, 2012.

EMS segment operating income as a percentage of related revenue increased slightly in the second quarter and first six months of fiscal 2013 compared with the same periods of fiscal 2012. Segment operating income was consistent in these periods due to the increases in segment revenue described above and relatively stable segment operating expenses.

Payment Solutions

(Dollars in millions)	Q2 FY13	Q2 FY12	% Change		YTD Q2 FY13	YTD Q2 FY12	% Change	
Product revenue	\$7	\$6			\$13	\$12		
Service and other revenue	110	93			218	181		
Total segment revenue	\$117	\$99	18	%	\$231	\$193	19	%
% of total revenue	12	% 10	%		14	% 12	%	
Segment operating income	\$24	\$23	8	%	\$46	\$47	(1)%
% of related revenue	21	% 23	%		20	% 24	%	

Payment Solutions product revenue is derived primarily from QuickBooks Point of Sale solutions, which help retailers process and track sales electronically and integrate with QuickBooks financial software. Payment Solutions service and other revenue is derived primarily from merchant services for small businesses that include credit card, debit card, electronic benefits, and gift card processing services; check verification, check guarantee and electronic check conversion, including automated clearing house (ACH) and Check21 capabilities; Web-based transaction processing services for online merchants; and GoPayment mobile payment processing services.

Payment Solutions total net revenue increased \$18 million or 18% in the second quarter of fiscal 2013 and \$38 million or 19% in the first six months of fiscal 2013 compared with the same periods of fiscal 2012. Higher revenue in the fiscal 2013 periods was driven by fee structure changes and 9% higher U.S. total credit and debit card transaction volume. Our U.S. merchant customer base grew 12% in the first six months of fiscal 2013 compared with the same period of fiscal 2012.

Payment Solutions segment operating income as a percentage of related revenue decreased in the second quarter and first six months of fiscal 2013 compared with the same periods of fiscal 2012. The increases in segment revenue described above were offset by higher segment costs and expenses, including higher chargeback losses from mobile offerings in cost of revenue and higher staffing expenses associated with an increase in headcount.

Consumer Tax

(Dollars in millions)	Q2 FY13	Q2 FY12	% Change		YTD Q2 FY13	YTD Q2 FY12	% Change		
Product revenue	\$54	\$63			\$61	\$74			
Service and other revenue	162	232			191	262			
Total segment revenue	\$216	\$295	(27)%	\$252	\$336	(25)%	
% of total revenue	22	% 30	%		16	% 21	%		
Segment operating income (loss)	\$24	\$114	(79)%	\$(3)	\$86	(103)%
% of related revenue	11	% 38	%		(1)%	25	%	

Consumer Tax product revenue is derived primarily from TurboTax federal and state consumer and small business desktop tax return preparation software. Consumer Tax service and other revenue is derived primarily from TurboTax

Online tax return preparation services and electronic tax filing services. Due to the seasonal nature of our Consumer Tax business, we will not have substantially complete results for the 2012 tax season until the third quarter of fiscal 2013.

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Consumer Tax segment revenue decreased \$84 million or 25% in the first six months of fiscal 2013 compared with the same period of fiscal 2012. Federal tax legislation occurred on January 2, 2013 and the Internal Revenue Service announced that it would accept no federal income tax returns before January 30, 2013, about two weeks later than for the previous tax season and just two days before the end of our second fiscal quarter. As a result, we believe that some consumers delayed purchasing tax software and filing their federal tax returns, and we estimate that approximately \$140 million in revenue for our Consumer Tax offerings will shift from the second quarter of fiscal 2013 to the third quarter of fiscal 2013.

Consumer Tax segment operating income as a percentage of related revenue was significantly lower in the first six months of fiscal 2013 compared with the same period of fiscal 2012 due to the revenue shift described above and, to a lesser extent, to higher expenses for advertising and other marketing programs in the fiscal 2013 period.

Accounting Professionals

(Dollars in millions)	Q2 FY13	Q2 FY12	% Change	YTD Q2 FY13	YTD Q2 FY12	% Change
Product revenue	\$120	\$126		\$148	\$149	
Service and other revenue	3	5		7	9	
Total segment revenue	\$123	\$131	(7)%	\$155	\$158	(2)%
% of total revenue	13%	13%		10%	10%	
Segment operating income	\$72	\$81	(11)%	\$62	\$67	(8)%
% of related revenue	59%	61%		40%	42%	

Accounting Professionals product revenue is derived primarily from Lacerte and ProSeries professional tax preparation software products and from QuickBooks Premier Accountant Edition and ProAdvisor Program for professional accountants. Accounting Professionals service and other revenue is derived primarily from Intuit Tax Online tax return preparation services, electronic tax filing services, bank product transmission services and training services. Due to the seasonal nature of our Accounting Professionals business, we will not have substantially complete results for the 2012 tax season until the third quarter of fiscal 2013.

Accounting Professionals total net revenue decreased \$3 million or 2% in the first six months of fiscal 2013 compared with the same period of fiscal 2012. The slight decline in revenue was due to our launch of a new professional tax offering that has different revenue timing compared with our existing offerings.

Accounting Professionals segment operating income as a percentage of related revenue was slightly lower in the first six months of fiscal 2013 compared with the same period of fiscal 2012 due to the decrease in revenue described above.

Financial Services

(Dollars in millions)	Q2 FY13	Q2 FY12	% Change	YTD Q2 FY13	YTD Q2 FY12	% Change
Product revenue	\$—	\$—		\$—	\$—	
Service and other revenue	93	92		186	181	
Total segment revenue	\$93	\$92	1%	\$186	\$181	3%
% of total revenue	9%	9%		11%	12%	
Segment operating income	\$20	\$25	(20)%	\$35	\$43	(19)%
% of related revenue	22%	28%		19%	24%	

Financial Services service and other revenue is derived primarily from online and mobile banking solutions that are hosted in our data centers and delivered as software as a service to financial institutions. Financial Services service and other revenue also includes fees for implementation services and online lead generation fees from our Mint personal finance business.

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Financial Services total net revenue increased 1% in the second quarter of fiscal 2013 and 3% in the first six months of fiscal 2013 compared with the same periods of fiscal 2012. Financial Services revenue increased 6% in the second quarter of fiscal 2013 and 8% in the first six months of fiscal 2013 when fiscal 2012 revenue is adjusted to exclude revenue from our corporate banking business, which we sold in March 2012, and fiscal 2013 revenue is adjusted to exclude Mint revenue, which we reported in our Other Businesses segment in fiscal 2012. Revenue growth in both fiscal 2013 periods was primarily driven by higher mobile banking revenue. Mobile banking revenue grew due to an increase in mobile banking end users and usage.

Financial Services segment operating income as a percentage of related revenue declined in the second quarter and first six months of fiscal 2013 compared with the same periods of fiscal 2012. The increases in segment revenue described above were more than offset by higher segment costs and expenses, including higher data center hosting expenses and slightly higher staffing expenses associated with a modest increase in headcount.

Other Businesses

(Dollars in millions)	Q2 FY13	Q2 FY12	% Change	YTD Q2 FY13	YTD Q2 FY12	% Change
Product revenue	\$35	\$39		\$61	\$64	
Service and other revenue	32	36		63	65	
Total segment revenue	\$67	\$75	(10)%	\$124	\$129	(4)%
% of total revenue	7%	7%		8%	8%	
Segment operating income	\$10	\$12	(17)%	\$16	\$9	72%
% of related revenue	15%	16%		13%	7%	

Other Businesses consist primarily of Quicken; Intuit Health; and our global businesses, primarily in Canada, the United Kingdom, and Singapore. Quicken product revenue is derived primarily from Quicken personal finance desktop software products. Quicken service and other revenue is derived primarily from fees from consumer online transactions and Quicken Loans trademark royalties. Intuit Health service revenue is derived from online patient-to-provider communication services and fees for implementation services. In Canada, product revenue is derived primarily from localized versions of QuickBooks and Quicken as well as consumer desktop tax return preparation software and professional tax preparation products. Service and other revenue in Canada consists primarily of revenue from QuickBooks support plans, payroll services, and merchant payment processing services. In the United Kingdom, product revenue is derived primarily from localized versions of QuickBooks and QuickBooks Payroll. In Singapore and other international locations, service and other revenue is derived from QuickBooks Online. Other Businesses total net revenue decreased 10% in the second quarter of fiscal 2013 and 4% in the first six months of fiscal 2013 compared with the same periods of fiscal 2012. Other Businesses revenue declined 3% in the second quarter of fiscal 2013 and increased 3% in the first six months of fiscal 2013 when fiscal 2012 revenue is adjusted to exclude Mint revenue, which we transferred to our Financial Services segment in fiscal 2013. Global revenue increased 3% in the first six months of fiscal 2013 compared with the same period of fiscal 2012, driven by growth in global small business revenue.

Other Businesses segment operating income as a percentage of related revenue increased in the first six months of fiscal 2013 compared with the same period of fiscal 2012. Segment costs and expenses were lower due to the transfer of Mint to our Financial Services segment in fiscal 2013.

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Cost of Revenue

(Dollars in millions)	Q2 FY13	% of Related Revenue	Q2 FY12	% of Related Revenue	YTD Q2 FY13	% of Related Revenue	YTD Q2 FY12	% of Related Revenue
Cost of product revenue	\$40	10 %	\$52	12 %	\$72	11 %	\$84	13 %
Cost of service and other revenue	162	29 %	150	26 %	307	31 %	282	30 %
Amortization of acquired technology	6	n/a	3	n/a	11	n/a	6	n/a
Total cost of revenue	\$208	21 %	\$205	21 %	\$390	24 %	\$372	24 %

Cost of product revenue as a percentage of product revenue decreased in the second quarter and first six months of fiscal 2013 compared with the same periods of fiscal 2012 due to favorable product mix. Cost of service and other revenue as a percentage of service and other revenue increased in the second quarter and first six months of fiscal 2013 compared with the same periods of fiscal 2012 due to growth in QuickBooks Online and online payroll offerings and lower data center hosting costs, partially offset by higher chargeback losses from mobile offerings in our Payment Solutions business.

Operating Expenses

(Dollars in millions)	Q2 FY13	% of Total Net Revenue	Q2 FY12	% of Total Net Revenue	YTD Q2 FY13	% of Total Net Revenue	YTD Q2 FY12	% of Total Net Revenue
Selling and marketing	\$372	38 %	\$330	33 %	\$623	39 %	\$546	34 %
Research and development	179	19 %	164	16 %	357	22 %	327	21 %
General and administrative	109	11 %	95	10 %	207	12 %	187	12 %
Amortization of other acquired intangible assets	7	1 %	10	1 %	14	1 %	31	2 %
Total operating expenses	\$667	69 %	\$599	60 %	\$1,201	74 %	\$1,091	69 %

Current Fiscal Quarter

Total operating expenses as a percentage of total net revenue increased to 69% in the second quarter of fiscal 2013 from 60% in the same quarter of fiscal 2012. Total net revenue for the second quarter of fiscal 2013 decreased \$31 million while total operating expenses excluding amortization of other acquired intangible assets increased \$71 million. The increase in operating expenses included the addition of operating expenses for Demandforce, which we acquired in May 2012. Operating expenses increased about \$30 million for higher staffing expenses associated with higher headcount and about \$18 million for advertising and other marketing programs in our Financial Management Solutions and Consumer Tax segments.

Fiscal Year to Date

Total operating expenses as a percentage of total net revenue increased to 74% in the first six months of fiscal 2013 from 69% in the same period of fiscal 2012. Total net revenue for the first six months of fiscal 2013 grew \$41 million and total operating expenses excluding amortization of other acquired intangible assets increased \$127 million. The increase in operating expenses included the addition of operating expenses for Demandforce. Operating expenses increased about \$76 million for higher staffing expenses associated with higher headcount and about \$23 million for advertising and other marketing programs in our Financial Management Solutions and Consumer Tax segments.

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Non-Operating Income and Expenses

Interest Expense

Interest expense of \$15 million for the first six months of fiscal 2013 and \$30 million for the first six months of fiscal 2012 consisted primarily of interest on senior notes that we issued in March 2007. See Note 6 to the financial statements in Part I, Item 1 of this report for more information.

Interest and Other Income, Net

(In millions)	Three Months Ended		Six Months Ended	
	January 31, 2013	January 31, 2012	January 31, 2013	January 31, 2012
Interest income	\$—	\$2	\$1	\$4
Net gain (loss) on executive deferred compensation plan assets	3	1	4	(1)
Gain on disposition of stock warrants	—	—	—	10
Other	(2)	—	(2)	1
Total interest and other income, net	\$1	\$3	\$3	\$14

Interest and other income, net consists primarily of interest income and net gains on executive deferred compensation plan assets. Lower average invested balances and lower interest rates resulted in lower interest income in the second quarter and first six months of fiscal 2013 compared with the same periods of fiscal 2012. In accordance with authoritative guidance, we record gains and losses associated with executive deferred compensation plan assets in interest and other income and gains and losses associated with the related liabilities in operating expenses. The total amounts recorded in operating expenses are generally equal to the total amounts recorded in interest and other income.

In connection with our acquisition of Digital Insight Corporation in fiscal 2007, we acquired stock warrants for a privately held company. During the first quarter of fiscal 2012 that company was acquired and we recorded a gain of approximately \$10 million on the disposition of the warrants.

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 adding the effects of any discrete income tax items specific to the period. Our effective tax rate for the second quarter of fiscal 2013 was approximately 18% and we recorded an \$8 million tax benefit on pretax income of \$12 million for the first six months of fiscal 2013. Excluding discrete tax benefits primarily related to the retroactive reinstatement of the federal research and experimentation credit as described in Note 7 to the financial statements in Part I, Item 1 of this report, our effective tax rate for the second quarter and first six months of fiscal 2013 was approximately 33% and did not differ significantly from the federal statutory rate of 35%. Our effective tax rates for the second quarter and first six months of fiscal 2012 were approximately 34% and 33% and did not differ significantly from the federal statutory rate of 35%.

Discontinued Operations

On September 17, 2012 we sold our Intuit Websites business, which was a component of our Financial Management Solutions reporting segment, for approximately \$60 million in cash and recorded a gain on disposal of approximately \$32 million, net of income taxes. We have segregated the operating results of Intuit Websites from continuing operations in our statements of operations for all periods prior to the sale. See Note 4 to the financial statements in Part I, Item 1 of this report for more information.

Liquidity and Capital Resources

Overview

At January 31, 2013, our cash, cash equivalents and investments totaled \$678 million, a decrease of \$66 million from July 31, 2012 due to the factors discussed under “Statements of Cash Flows” below. Our primary source of liquidity has been cash from operations, which entails the collection of accounts receivable for products and services. Our primary uses of cash have been

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for research and development programs, selling and marketing activities, capital projects, acquisitions of businesses, debt service costs, repurchases of our common stock, and the payment of cash dividends. As discussed in “Executive Overview – Industry Trends and Seasonality” earlier in this Item 2, our business is subject to significant seasonality. The balance of our cash, cash equivalents and investments generally fluctuates with that seasonal pattern. We believe the seasonality of our business is likely to continue in the future.

The following table summarizes selected measures of our liquidity and capital resources at the dates indicated:

(Dollars in millions)	January 31, 2013	July 31, 2012	\$ Change	% Change	
Cash, cash equivalents and investments	\$678	\$744	\$(66)	(9)	%
Long-term investments	88	75	13	17	%
Long-term debt	499	499	—	—	%
Working capital	316	258	58	22	%
Ratio of current assets to current liabilities	1.2 : 1	1.2 : 1			

We expect to generate significant cash from operations during the rest of fiscal 2013. Since our operations are primarily domestic, approximately 80% of our cash and investments at January 31, 2013 were located in the U.S. and none of that cash was restricted. Our only significant debt consists of \$500 million in senior unsecured notes due in March 2017. We also have an unused \$500 million unsecured revolving line of credit facility available to us for general corporate purposes, including future acquisitions. These are both described later in this Item 2.

We evaluate, on an ongoing basis, the merits of acquiring technology or businesses, or establishing strategic relationships with and investing in other companies. Our strong liquidity profile enables us to respond nimbly to these kinds of opportunities.

Based on past performance and current expectations, we believe that our cash and cash equivalents, investments, and cash generated from operations will be sufficient to meet anticipated seasonal working capital needs, capital expenditure requirements, contractual obligations, commitments, debt service requirements, and other liquidity requirements associated with our operations for at least the next 12 months. We expect to return excess cash generated by operations to our stockholders through repurchases of our common stock and payment of cash dividends, after taking into account our operating and strategic cash needs.

Statements of Cash Flows

The following table summarizes selected items from our statements of cash flows for the first six months of each of fiscal 2013 and fiscal 2012. See the financial statements in Part I, Item 1 of this report for complete statements of cash flows for those periods.

(Dollars in millions)	Six Months Ended		
	January 31, 2013	January 31, 2012	\$ Change
Net cash provided by (used in):			
Operating activities	\$111	\$150	\$(39)
Investing activities	(2)	(65)	63
Financing activities	(104)	(526)	422
Effect of exchange rate changes on cash	1	(4)	5
Increase (decrease) in cash and cash equivalents	\$6	\$(445)	\$451

During the first six months of fiscal 2013 we generated cash from operations, from the issuance of common stock under employee stock plans, and from the sale of our Intuit Websites business. We used part of the cash we generated from operations to pay accrued bonuses for the prior fiscal year and to fund a seasonal increase in accounts receivable.

During the same period we also used cash for the repurchase of shares of our common stock under our stock repurchase programs, for the payment of cash dividends, and for capital expenditures.

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During the first six months of fiscal 2012 we generated cash from operations and from the issuance of common stock under employee stock plans. We used part of the cash we generated from operations to pay accrued bonuses for the prior fiscal year and to fund a seasonal increase in accounts receivable. During the same period we also used cash for the repurchase of shares of our common stock under our stock repurchase programs, for the payment of cash dividends, and for capital expenditures.

Stock Repurchase Programs and Dividends on Common Stock

As described in Note 8 to the financial statements in Part I, Item 1 of this report, during the first six months of fiscal 2013 we continued to repurchase shares of our common stock under repurchase programs that our Board of Directors has authorized. At January 31, 2013, we had authorization from our Board of Directors to expend up to an additional \$1.5 billion for stock repurchases through August 15, 2014. We currently expect to continue repurchasing our common stock on a quarterly basis; however, future stock repurchases under the current program are at the discretion of management, and authorization of future stock repurchase programs is subject to the final determination of our Board of Directors.

During the first six months of fiscal 2013 we also continued to pay quarterly cash dividends on shares of our outstanding common stock. In February 2013 our Board of Directors declared a quarterly cash dividend of \$0.17 per share of outstanding common stock payable on April 18, 2013 to stockholders of record at the close of business on April 10, 2013. We currently expect to continue paying comparable cash dividends on a quarterly basis; however, future declarations of dividends and the establishment of future record dates and payment dates are subject to the final determination of our Board of Directors.

Unsecured Revolving Credit Facility

On February 17, 2012 we entered into an agreement with certain institutional lenders for a \$500 million unsecured revolving credit facility that will expire on February 17, 2017. See Note 5 to the financial statements in Part I, Item 1 of this report for a description of the key terms of this agreement, including the covenants. We remained in compliance with those covenants at all times during the quarter ended January 31, 2013. We may use amounts borrowed under this credit facility for general corporate purposes, including future acquisitions. To date we have not borrowed under the credit facility. We monitor counterparty risk associated with the institutional lenders that are providing the credit facility. We currently believe that the credit facility will be available to us should we choose to borrow under it.

Cash Held by Foreign Subsidiaries

Our cash, cash equivalents and investments totaled \$678 million at January 31, 2013. Of this amount, approximately 20% was held by our foreign subsidiaries and subject to repatriation tax considerations. We intend to permanently reinvest a significant portion of our earnings from foreign operations, and we currently do not anticipate that we will need funds generated from foreign operations to fund our domestic operations. In the event that funds from foreign operations are needed to fund operations in the United States, if U.S. taxes have not been previously provided on the related earnings we would provide for and pay additional U.S. taxes at the time we change our intention with regard to the reinvestment of those earnings.

Off-Balance Sheet Arrangements

At January 31, 2013, we did not have any significant off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

Contractual Obligations

We presented our contractual obligations at July 31, 2012 in our Annual Report on Form 10-K for the fiscal year then ended. There were no significant changes in those obligations during the first six months of fiscal 2013.

Recent Accounting Pronouncements

For a description of recent accounting pronouncements, if any, and the potential impact of these pronouncements on our consolidated financial statements, see Note 1 to the financial statements in Part I, Item 1 of this Quarterly Report

on Form 10-Q.

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ITEM 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Investment Risk

There has been significant deterioration and instability in the financial markets since 2008. This period of extraordinary disruption and readjustment in the financial markets has exposed us to investment risks beyond those typically inherent in investment securities. The value and liquidity of the securities in which we invest could deteriorate rapidly and the issuers of these securities could be subject to credit rating downgrades. In light of the current market conditions and these additional risks, we actively monitor market conditions and developments specific to the securities in which we invest. We believe that we take a conservative approach to investing our funds in that we invest only in highly-rated securities and diversify our portfolio of investments. While we believe we take prudent measures to mitigate investment related risks, such risks cannot be fully eliminated because of market circumstances that are outside our control.

Our investments 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 funds, we diversify our investments by limiting our holdings with any individual issuer. We do not hold derivative financial instruments or European sovereign debt in our portfolio of investments. See Note 3 to the financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for a summary of the cost and fair value of our investments by type of issue.

Interest Rate Risk

Our cash equivalents and investments are subject to market risk due to changes in interest rates. Interest rate movements affect the interest income we earn on cash equivalents and investments and the fair value of those investments. Should the Federal Reserve Target Rate increase by 25 basis points from the level of January 31, 2013, the value of our investments would decrease by approximately \$1 million. Should the Federal Reserve Target Rate increase by 100 basis points from the level of January 31, 2013, the value of our investments would decrease by approximately \$5 million.

We are also exposed to the impact of changes in interest rates as they affect our \$500 million revolving credit facility. Advances under the credit facility accrue interest at rates that are equal to JP Morgan's alternate base rate plus a margin that ranges from 0.0% to 0.5% or the London InterBank Offered Rate (LIBOR) plus a margin that ranges from 0.9% to 1.5%, in both cases based on our senior debt credit ratings. Consequently, our interest expense would fluctuate with changes in the general level of these interest rates if we were to borrow any amounts under the credit facility. No amounts are currently outstanding under the credit facility.

On March 12, 2007 we issued \$500 million of 5.75% senior unsecured notes due on March 15, 2017. We carry these senior notes at face value less unamortized discount on our balance sheets. Since these senior notes bear interest at fixed rates, we have no financial statement risk associated with changes in interest rates. However, the fair value of these notes fluctuates when interest rates change. See Note 2 and Note 6 to the financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information.

Impact of Foreign Currency Rate Changes

The functional currencies of our international operating subsidiaries are the local currencies. We translate the assets and liabilities of our foreign subsidiaries at the exchange rates in effect on the balance sheet date. We translate their revenue, costs and expenses at the average rates of exchange in effect during the period. We include translation gains and losses in the stockholders' equity section of our balance sheets. We include net gains and losses resulting from foreign exchange transactions in interest and other income, net in our statements of operations.

Since we translate foreign currencies (primarily Canadian dollars, British pounds, Indian rupees and Singapore dollars) 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 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 January 31, 2013, we did not engage in foreign currency hedging activities.

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ITEM 4

CONTROLS AND PROCEDURES

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 as defined under Exchange Act Rule 13a-15(e) and 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 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

See Note 9 to the financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for a description of legal proceedings.

ITEM 1A

RISK FACTORS

Forward-Looking Statements and Risk Factors

This Quarterly Report on Form 10-Q contains forward-looking statements. All statements in this report, other than statements that are purely historical, are forward-looking statements. Words such as “expect,” “anticipate,” “intend,” “plan,” “believe,” “forecast,” “estimate,” “seek,” and similar expressions also identify forward-looking statements. In this report, forward-looking statements include, without limitation, the following:

- our expectations and beliefs regarding future conduct and growth of the business;
- our expectation of a shift in revenue as a result of late tax legislation;
- our expectation that we will solve problems faster and more efficiently for our growing base of customers by moving to more open platforms with application programming interfaces that enable the contributions of end users and third-party developers;
- our expectation that we will continue to invest significant resources in our product development, marketing and sales capabilities in the future;
- our expectation that connected services revenue as a percentage of our total revenue will continue to grow in the future;
- the assumptions underlying our Critical Accounting Policies and Estimates, including our estimates regarding product rebate and return reserves; the collectability of accounts receivable; stock volatility and other assumptions used to estimate the fair value of share-based compensation; the fair value of goodwill; and expected future amortization of acquired intangible assets;
- our belief that the investments we hold are not other-than-temporarily impaired;
- our belief that the reduction in liquidity of the municipal auction rate securities we hold will not have a material impact on our overall ability to meet our liquidity needs;
- our expectation that we will continue to repurchase our common stock on a quarterly basis;
- our expectation that we will continue to pay a comparable cash dividend on a quarterly basis;
- our belief that our exposure to currency exchange fluctuation risk will not be significant in the future;
- our assessments and estimates that determine our effective tax rate;
- our belief that it is not reasonably possible that there will be a significant increase or decrease in our unrecognized tax benefits over the next 12 months;
- our belief that we will not need funds generated from foreign operations to fund our domestic operations;
- our belief that our cash and cash equivalents, investments and cash generated from operations will be sufficient to meet our seasonal working capital needs, capital expenditure requirements, contractual obligations, commitments, debt service requirements and other liquidity requirements associated with our operations for at least the next 12 months;
- our expectation that we will return excess cash generated by operations to our stockholders through repurchases of our common stock and payment of cash dividends;
- our beliefs regarding seasonality, competition and other trends that affect our businesses; and
- 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.

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. We encourage you to read carefully all information

provided in this Quarterly

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Report and in our other filings with the Securities and Exchange Commission 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 Quarterly Report, and we undertake no obligation to publicly revise or update any forward-looking statement for any reason.

Because forward-looking statements involve risks and uncertainties, there are important factors that may cause actual results to differ materially from those contained in the forward-looking statements. These factors include the following:

We face intense competitive pressures that may harm our operating results.

We face intense competition in all of our businesses, and we expect competition to remain intense in the future. Our competitors and potential competitors range from large and established entities to emerging start-ups. Our competitors may introduce superior products and services, reduce prices, have greater technical, marketing and other resources, have greater name recognition, have larger installed bases of customers, have well-established relationships with our current and potential customers, advertise aggressively or beat us to market with new products and services. In addition, we may face competition from existing companies, with large established consumer user-bases and broad-based platforms, who may change or expand the focus of their business strategies and target our customers, such as small businesses and financial institutions. We also face intensified competition from providers of free accounting, tax, payments, banking and other financial services. In order to compete, we have also introduced free offerings in several categories, but we may not be able to attract customers or effectively monetize all of these offerings, and customers who have formerly paid for Intuit's products and services may elect to use free offerings instead. These competitive factors may diminish our revenue and profitability and harm our ability to acquire and retain customers.

Our consumer tax business also faces significant competition from the public sector, where we face the risk of federal and state taxing authorities developing software or other systems to facilitate tax return preparation and electronic filing at no charge to taxpayers. These or similar programs may be introduced or expanded in the future, which may cause us to lose customers and revenue. Although the Free File Alliance has kept the federal government from being a direct competitor to Intuit's tax offerings, it has fostered additional online competition and may cause us to lose significant revenue opportunities. The current agreement with the Free File Alliance is scheduled to expire in October 2014. We anticipate that governmental encroachment at both the federal and state levels may present a continued competitive threat to our business for the foreseeable future.

Future revenue growth depends upon our ability to adapt to technological change and successfully introduce new and enhanced products, services and business models.

The software as a service (SaaS), desktop software and mobile technology industries are characterized by rapidly changing technology, evolving industry standards and frequent new product introductions. As we continue to grow our software as a service, mobile and other offerings, we must continue to innovate and develop new products and features to meet changing customer needs and attract and retain talented software developers. We need to continue to develop our skills, tools and capabilities to capitalize on existing and emerging technologies, which require us to devote significant resources.

A number of our businesses also derive a significant amount of their revenue from one-time upfront license fees and rely on customer upgrades and service offerings to generate a significant portion of their revenues. In addition, our consumer and professional tax businesses depend significantly on revenue from customers who return each year to use our updated tax preparation and filing software and services. 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 new or upgraded products or services to our customers, our revenues may be harmed. In addition, as we continue to introduce and expand our new business models, including offerings that are subscription-based or that are free to end users, we may be unsuccessful in monetizing or increasing customer adoption of these offerings.

The number of people who access products and services through devices other than personal computers, including mobile phones, smartphones, and handheld computers such as tablets, has increased dramatically in the past few years. We have limited experience to date in developing products and services for users of these alternative devices,

and the versions of our products and services developed for these devices may not be compelling to users. Even if we are able to attract new users through these mobile offerings, the amount of revenue that we derive per user from mobile offerings may be less than the revenue that we have historically derived from users of personal computers. As new devices and new platforms are continually being released, it is difficult to predict the problems we may encounter in developing versions of our products and services for use on these alternative devices and we may need to devote significant resources to the creation, support, and maintenance of such offerings. If we are slow to develop products and technologies that are compatible with these alternative devices, or if our competitors are able to achieve those results more quickly than us, we will fail to capture a significant share of an increasingly important portion of the market for online services, which could adversely affect our business.

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In some cases, we may expend a significant amount of resources and management attention on offerings that do not ultimately succeed in their markets. We have encountered difficulty in launching new products and services in the past. If we misjudge customer needs in the future, our new products and services may not succeed and our revenues and earnings may be harmed. We have also invested, and in the future expect to invest, in new business models, geographies, strategies and initiatives. Such endeavors may involve significant risks and uncertainties, including distraction of management from current operations, expenses associated with the initiatives and inadequate return on investments. Because these new initiatives are inherently risky, they may not be successful and may harm our financial condition and operating results.

Business interruption or failure of our information technology and communication systems may impair the availability of our products and services, which may damage our reputation and harm our future financial results.

As we continue to transition our business to more connected services, we become more dependent on the continuing operation and availability of our information technology and communication systems and those of our external service providers. We do not have redundancy for all of our systems, many of our critical applications reside in only one of our data centers, and our disaster recovery planning may not account for all eventualities. We also do not maintain real-time back-up of all our data, and in the event of significant system disruption we may experience loss of data or processing capabilities, which may cause us to lose customers and may materially harm our reputation and our operating results. In addition, we are in the process of updating our customer facing applications and the supporting information technology infrastructure to meet our customers' expectations for continuous service availability. Any difficulties in upgrading these applications or infrastructure or failure of our systems or those of our service providers may result in interruptions in our service, which may reduce our revenues and profits, cause us to lose customers and damage our reputation. Any prolonged interruptions at any time may result in lost customers, additional refunds of customer charges, negative publicity and increased operating costs, any of which may significantly harm our business, financial condition and results of operations.

We are in the process of migrating our applications and infrastructure to new data centers. If we do not execute the transition to the new data centers in an effective manner, we may experience unplanned service disruptions or unforeseen increases in costs which may harm our operating results and our business.

Our business operations, data centers, information technology and communications systems are vulnerable to damage or interruption from natural disasters, human error, malicious attacks, fire, power loss, telecommunications failures, computer viruses, computer denial of service attacks, terrorist attacks and other events beyond our control. The majority of our research and development activities, our corporate headquarters, our principal information technology systems, and other critical business operations are located near major seismic faults. We do not carry earthquake insurance for direct quake-related losses. Our future financial results may be materially harmed in the event of a major earthquake or other natural or man-made disaster.

We rely on internal systems and external systems maintained by manufacturers, distributors and other service providers to take and fulfill customer orders, handle customer service requests and host certain online activities. Any interruption or failure of our internal or external systems may prevent us or our service providers from accepting and fulfilling customer orders or cause company and customer data to be unintentionally disclosed. Our continuing efforts to upgrade and expand our network security and other information systems as well as our high-availability capabilities may be costly, and problems with the design or implementation of system enhancements may harm our business and our results of operations.

Our hosting, collection, use and retention of personal customer information and data create risk that may harm our business.

A number of our businesses collect, use and retain large amounts of personal customer information and data, including credit card numbers, tax return information, bank account numbers and passwords, personal and business financial data, social security numbers, healthcare information and payroll information. We may also develop new business models that use certain personal information, or data derived from personal information. In addition, we collect and maintain personal information of our employees in the ordinary course of our business. Some of this personal customer and employee information is held, and some transactions are executed, by third parties. In addition, as many of our products and services are Web-based and mobile-application-based, the amount of data we store for our users

on our servers and the servers of our vendors that provide hosting services (including personal information) has been increasing and will continue to increase as we further transition our businesses to connected services. We and our vendors use commercially available security technologies to protect transactions and personal information. We use security and business controls to limit access and use of personal information and require our vendors to implement similar controls. However, we may not have the ability to effectively monitor the implementation of security measures of our vendors, and, in any event, individuals or third parties may be able to circumvent these security and business measures, and errors in the storage, use or transmission of personal information may result in a breach of customer or employee privacy or theft of assets, which may require notification under applicable data privacy regulations. We employ contractors, temporary and seasonal employees who may have access to the personal information of customers and employees or who may execute transactions in the normal course of their duties. While we conduct background checks of our employees

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and other individuals and limit access to systems and data, it is possible that one or more of these individuals may circumvent these controls, resulting in a security breach.

We are subject to laws, rules and regulations relating to the collection, use, and security of user data. New laws in this area have been passed by several jurisdictions, and other jurisdictions are considering imposing additional restrictions. These new laws may be interpreted and applied inconsistently from jurisdiction to jurisdiction and our current data protection policies and practices may not be consistent with those interpretations and applications. In addition, the ability to execute transactions and the possession and use of personal information and data in conducting our business subjects us to legislative and regulatory burdens that may require notification to customers or employees of a security breach, restrict our use of personal information and hinder our ability to acquire new customers or market to existing customers. As our business continues to expand to new industry segments that may be more highly regulated for privacy and data security, and to countries outside the United States that have more strict data protection laws, our compliance requirements and costs may increase. We have incurred — and may continue to incur — significant expenses to comply with mandatory privacy and security standards and protocols imposed by law, regulation, industry standards or contractual obligations.

A major breach of our security measures or those of third parties that provide hosting services for us, execute transactions or hold and manage personal information may have serious negative consequences for our businesses, including possible fines, penalties and damages, reduced customer demand for our services, harm to our reputation and brands, further regulation and oversight by federal or state agencies, and loss of our ability to provide financial transaction services or accept and process customer credit card orders or tax returns. From time to time, we detect, or receive notices from customers or public or private agencies that they have detected, vulnerabilities in our servers, our software or third-party software components that are distributed with our products. The existence of vulnerabilities, even if they do not result in a security breach, may harm customer confidence and require substantial resources to address, and we may not be able to discover or remediate such security vulnerabilities before they are exploited. In addition, hackers develop and deploy viruses, worms and other malicious software programs that may attack our offerings. Although this is an industry-wide problem that affects software across platforms, it is increasingly affecting our offerings because hackers tend to focus their efforts on the more popular programs and offerings and we expect them to continue to do so. If hackers were able to circumvent our security measures, or if we were unable to detect an intrusion into our systems and contain such intrusion in a reasonable amount of time, we may lose personal information. Although we have commercially available network and application security, internal control measures, and physical security procedures to safeguard our systems, there can be no assurance that a security breach, intrusion, loss or theft of personal information will not occur, which may harm our business, customer reputation and future financial results and may require us to expend significant resources to address these problems, including notification under data privacy regulations.

If we are unable to develop, manage and maintain critical third party business relationships, our business may be adversely affected.

Our growth is dependent on the strength of our business relationships and our ability to continue to develop, maintain and leverage new and existing relationships. We rely on various third party partners, including software and service providers, suppliers, vendors, manufacturers, distributors, contractors, financial institutions, core processors, licensing partners and development partners, among others, in many areas of our business in order to deliver our offerings and operate our business. We also rely on third parties to support the operation of our business by maintaining our physical facilities, equipment, power systems and infrastructure. In certain instances, these third party relationships are sole source or limited source relationships and can be difficult to replace or substitute depending on the level of integration of the third party's products or services into, or with, our offerings and/or the general availability of such third party's products and services. In addition, there may be few or no alternative third party providers or vendors in the market. Further, there can be no assurance that we will be able to adequately retain third party contractors engaged to help us operate our business. The failure of third parties to provide acceptable and high quality products, services and technologies or to update their products, services and technologies may result in a disruption to our business operations and our customers, which may reduce our revenues and profits, cause us to lose customers and damage our reputation. Alternative arrangements and services may not be available to us on commercially reasonable terms or we

may experience business interruptions upon a transition to an alternative partner.

In particular, we have relationships with banks, credit unions or other financial institutions, both as customers and as suppliers of certain critical services we offer to our other customers. If macroeconomic conditions or other factors cause any of these institutions to fail, consolidate, stop providing certain services or institute cost-cutting efforts, our business and financial results may suffer and we may be unable to offer those services to our customers.

We increasingly utilize the distribution platforms of third parties like Apple's App Store and Google Play for Android for the distribution of certain of our product offerings. Although we benefit from the strong brand recognition and large user base of these distribution platforms to attract new customers, the platform owners have wide discretion to change the pricing structure, terms of service and other policies with respect to us and other developers. Any adverse changes by these third parties could adversely affect our financial results.

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Increased government regulation of our businesses may harm our operating results.

Many of our businesses are in highly regulated areas, including our tax, payroll, payments, financial services, prepaid debit card and healthcare businesses. There have been significant new regulations and heightened focus by the government on many of these areas. In addition, as we seek to grow our business, we may expand into more highly-regulated businesses or countries, which may subject us to increased regulatory scrutiny. The application of these laws and regulations to our businesses is often unclear and compliance with these regulations may involve significant costs or require changes to our business practices that result in reduced revenue. Any changes that we may incur as a result of any such regulations may not be sustained over time depending on a number of factors, including market and industry reactions to such regulations.

In order to meet regulatory standards, we may be required to increase investment in compliance and auditing functions or new technologies. In addition, government authorities may enact other laws, rules or regulations that place new burdens or restrictions on our business or determine that our operations are directly subject to existing rules or regulations, such as requirements related to data collection, use, transmission, retention, processing and security, which may make our business more costly, less efficient or impossible to conduct, and may require us to modify our current or future products or services, which may harm our future financial results.

The tax preparation industry continues to receive heightened attention from federal and state governments. New legislation, regulation, public policy considerations, litigation by the government or private entities, or new interpretations of existing laws may result in greater oversight of the tax preparation industry, restrict the types of products and services that we can offer or the prices we can charge, or otherwise cause us to change the way we operate our tax businesses or offer our tax products and services. This in turn may increase our cost of doing business and limit our revenue opportunities. In addition, if our practices are not consistent with new interpretations of existing laws, we may become subject to lawsuits, penalties, and other liabilities that did not previously apply. We are also 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, may significantly increase the costs of providing those services to our customers and may prevent us from delivering a quality product to our customers in a timely manner.

Our Financial Services business provides services to banks, credit unions and other financial institutions that are subject to extensive and complex federal and state regulation. As a result, our financial institution customers require that our products and services comply with the regulations applicable to these customers. If we are unable to comply with these regulations, we may incur significant costs and penalties, face litigation or governmental proceedings, and lose our ability to sell to these customers. Any of these adverse events may harm our future financial results and our reputation.

If we fail to process transactions effectively or fail to adequately protect against disputed or potential fraudulent activities, our revenue and earnings may be harmed.

Our operations process a significant volume and dollar value of transactions on a daily basis, especially in our payroll and payments businesses. 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 due to fraud. The systems supporting our business are comprised of multiple technology platforms that are difficult to scale. If we are unable to effectively manage our systems and processes we may be unable to process customer data in an accurate, reliable and timely manner, which may harm our business. In our payments processing service business, if merchants for whom we process payment 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.

The online tax preparation, payroll administration and online payments industries have been experiencing an increasing amount of fraudulent activities by third parties. Although we do not believe that any of this activity is uniquely targeted at our business, this type of fraudulent activity may adversely impact our own operations in our consumer tax, payroll, and payments businesses. In addition to any direct damages and potential fines that may result

from such fraud, which may be substantial, a loss of confidence in our controls may seriously harm our business and damage our brand. As fraud detection and prevention abilities improve across the various industries in which we operate, we may implement risk control mechanisms that could make it more difficult for legitimate customers to obtain and use our products as well as prevent the sale of our products to those parties seeking to facilitate fraudulent activity, which could result in lost revenue and negatively impact our operating results.

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

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 may become increasingly subject to infringement claims, including patent, copyright, and trademark infringement claims. Litigation may be necessary to determine the validity and scope of the patent rights of others. We have received an increasing number of allegations of patent infringement claims in the past and expect to receive more claims in the future based on allegations that our offerings infringe upon patents held by third parties. Some of these claims are the subject of pending litigation against us and against some of our customers. These claims may involve patent holding companies or other adverse patent owners who have no relevant product revenues of their own, and against whom our own patents may provide little or no deterrence. The ultimate outcome of any allegation is uncertain and, regardless of outcome, any such claim, with or without merit, may be time consuming to defend, result in costly litigation, divert management's time and attention from our business, require us to stop selling, delay shipping or redesign our products, or require us to pay monetary damages for royalty or licensing fees, or to satisfy indemnification obligations that we have with some of our customers. Our failure to obtain necessary license or other rights, or litigation arising out of intellectual property claims may harm our business.

We rely on third party intellectual property in our products and services.

Many of our products and services include intellectual property of third parties, which we license under agreements that must be renewed or renegotiated from time to time. We may not be able to obtain licenses to these third party technologies or content on reasonable terms, or at all. If we are unable to obtain the rights necessary to use this intellectual property in our products and services, we may not be able to sell the affected offerings, and customers who are currently using the affected product may be disrupted, which may in turn harm our future financial results, damage our brand, and result in customer loss. Also, we and our customers have been and may continue to be subject to infringement claims as a result of the third party intellectual property incorporated in to our offerings. Although we try to mitigate this risk and we may not be ultimately liable for any potential infringement, pending claims require us to use significant resources, require management attention and could result in loss of customers.

Some of our offerings include third-party software that is licensed under so-called "open source" licenses, some of which may include a requirement that, under certain circumstances, we make available, or grant licenses to, any modifications or derivative works we create based upon the open source software. Although we have established internal review and approval processes to mitigate these risks, we may not be sure that all open source software is submitted for approval prior to use in our products. Many of the risks associated with usage of open source may not be eliminated, and may, if not properly addressed, harm our business.

Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products, services, and brand.

Our patents, trademarks, trade secrets, copyrights and other intellectual property rights are important assets for us. We aggressively protect our intellectual property rights by relying on federal, state and common law rights in the U.S. and internationally, as well as a variety of administrative procedures. We also rely on contractual restrictions to protect our proprietary rights in products and services. The efforts that we take to protect our proprietary rights may not always be sufficient or effective. Protecting our intellectual property rights is costly and time consuming and may not be successful in every location. Any significant impairment of our intellectual property rights could harm our business, our brand and our ability to compete.

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 frequently encounter unauthorized copies of our software being sold through online marketplaces. Although we continue to evaluate and put in place technology solutions to attempt to lessen the impact of piracy and engage in efforts to educate consumers and public policy leaders on these issues and cooperate with industry groups in their efforts to combat piracy, we expect piracy to be a persistent problem that results in lost revenues and increased expenses.

Because competition for our key employees is intense, we may not be able to attract, retain and develop the highly skilled employees we need to support our planned growth.

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, mobile technologies, data security, and software as a service industries are in high demand and competition for their talents is intense, especially in California and India, where the majority of our employees are located. Also, as we strive to continue to adapt to technological change and introduce new and enhanced products and business models, we must be able to secure, maintain and

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develop the right quality and quantity of engaged and committed talent. Although we strive to be an employer of choice, we may not be able to continue to successfully attract, retain and develop key personnel which may cause our business to suffer.

As our product and service offerings become more tightly integrated, we may be required to recognize the related revenue over relatively longer periods of time.

Our expanding range of products and services, and the combinations in which we offer them, generate different revenue streams than our traditional desktop software businesses, and the accounting policies that apply to revenue from these offerings are complex. For example, as we offer more online services bundled with software products, we may be required to defer a higher percentage of our software product revenue into future fiscal periods. In addition, as we offer more services on a subscription basis, we recognize revenue from those services over the periods in which the services are provided. This may result in significant shifts of revenue from quarter to quarter, or from one fiscal year to the next.

The nature of our products and services necessitates timely product launches, and if we experience significant product quality problems or delays, it may 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. 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 the tax filing deadline. Due to the complexity of our products and the condensed development cycles under which we operate, our products sometimes contain “bugs” that may unexpectedly interfere with the operation of the software. The complexity of our products may also make it difficult for us to consistently deliver offerings that contain the features, functionality and level of accuracy that our customers expect. 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 repackage existing product inventory in our distribution channels. If we encounter development challenges or discover errors in our products late in our development cycle it may cause us to delay our product launch date. Any major defects or launch delays may lead to loss of customers and revenue, negative publicity, customer and employee dissatisfaction, reduced retailer shelf space and promotions, and increased operating expenses, such as inventory replacement costs, legal fees or payments resulting from our commitment to reimburse penalties and interest paid by customers due solely to calculation errors in our consumer tax preparation products.

Our businesses are highly seasonal and our quarterly results could fluctuate significantly.

Several of our businesses are highly seasonal which historically has caused 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 products and upgrades. We typically experience lower revenues, and operating losses, in the first and fourth quarters ending October 31 and July 31. Our financial results may 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 delivery of federal and state tax forms; any delay in our ability to successfully submit electronically filed tax returns with government agencies; changes in consumer behavior; the timing of our discontinuation of support for older product offerings; changes to our bundling strategy, such as the inclusion of upgrades with certain offerings; changes to how we communicate the availability of new functionality in the future (any of which may impact the pattern of revenue recognition); and the timing of acquisitions, divestitures, and goodwill and acquired intangible asset impairment charges. Any fluctuations in our operating results may adversely affect our stock price.

We are frequently a party to litigation and regulatory inquiries which could result in an unfavorable outcome and have an adverse effect on our business, financial condition, results of operation and cash flows.

We are subject to various legal proceedings, claims and regulatory inquiries that have arisen out of the ordinary conduct of our business and are not yet resolved and additional claims and inquiries may arise in the future. The number and significance of these claims and inquiries have increased as our businesses have evolved. Any proceedings, claims or inquiries initiated by or against us, whether successful or not, may be time consuming; result in

costly litigation, damage awards, consent decrees, injunctive relief or increased costs of business; require us to change our business practices or products; require significant amounts of management time; result in diversion of significant operations resources; or otherwise harm of business and future financial results. For further information about specific litigation, see Part II, Item 1, "Legal Proceedings."

The continued global economic downturn may harm our business and financial condition.

The continued global economic downturn has caused disruptions and extreme volatility in global financial markets and increased rates of default and bankruptcy, and has impacted consumer and small business spending. These macroeconomic

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developments have affected and may continue to negatively affect our business and financial condition. In particular, because the majority of our revenue is derived from sales within the U.S., economic conditions in the U.S. have an even greater impact on us than companies with a more diverse international presence. Potential new customers may not purchase or delay purchase of our products and services, and many of our existing customers may discontinue purchasing or delay upgrades of our existing products and services, thereby negatively impacting our revenues and future financial results. Decreased consumer spending levels may also reduce credit and debit card transaction processing volumes causing reductions in our payments revenue. Poor economic conditions and high unemployment has caused, and may continue to cause, a significant decrease in the number of tax returns filed, which may have a significant effect on the number of tax returns we prepare and file. In addition, weakness in the end-user consumer and small business markets may negatively affect the cash flow of our distributors and resellers who may, in turn, delay paying their obligations to us, which may increase our credit risk exposure and cause delays in our recognition of revenue or future sales to these customers. Additionally, if macroeconomic or other factors continue to cause banks, credit unions, mortgage lenders and other financial institutions to fail, or result in further cost-cutting efforts or consolidation of these entities, we may lose current or potential customers, achieve less revenue per customer and/or lose valuable relationships with such of these entities that provide critical services to our customers. Any of these events may harm our business and our future financial results.

We regularly invest resources to update and improve our internal information technology systems and software platforms. Should our investments not succeed, or if delays or other issues with new or existing internal technology systems and software platforms disrupt our operations, our business could be harmed.

We rely on our network and data center infrastructure and internal technology systems for many of our development, marketing, operational, support, sales, accounting and financial reporting activities. We are continually investing resources to update and improve these systems and environments in order to meet existing, as well as the growing and changing requirements of our business and customers. If we experience prolonged delays or unforeseen difficulties in updating and upgrading our systems and architecture, we may experience outages and may not be able to deliver certain offerings and develop new offerings and enhancements that we need to remain competitive. Such improvements and upgrades are often complex, costly and time consuming. In addition such improvements can be challenging to integrate with our existing technology systems, or may uncover problems with our existing technology systems. Unsuccessful implementation of hardware or software updates and improvements could result in outages, disruption in our business operations, loss of revenue or damage to our reputation.

Our international operations are subject to increased risks which may harm our business, operating results, and financial condition.

In addition to uncertainty about our ability to generate revenues from our foreign operations and expand into international markets, there are risks inherent in doing business internationally, including:

- trade barriers and changes in trade regulations;
- difficulties in developing, staffing, and simultaneously managing a large number of varying foreign operations as a result of distance, language, and cultural differences;
- stringent local labor laws and regulations;
- profit repatriation restrictions, and foreign currency exchange restrictions;
- political or social unrest, economic instability, repression, or human rights issues;
- geopolitical events, including acts of war and terrorism;
- import or export regulations;
- compliance with U.S. laws such as the Foreign Corrupt Practices Act, and local laws prohibiting corrupt payments to government officials;
- different and more stringent user protection, data protection, privacy and other laws; and
- risks related to other government regulation or required compliance with local laws.

Violations of the complex foreign and U.S. laws and regulations that apply to our international operations may result in fines, criminal actions or sanctions against us, our officers or our employees, prohibitions on the conduct of our business and damage to our reputation. Although we have implemented policies and procedures designed to promote compliance with these laws, there can be no assurance that our employees, contractors or agents will not violate our

policies. These risks inherent in our international operations and expansion increase our costs of doing business internationally and may result in harm to our business, operating results, and financial condition.

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If actual product returns exceed returns reserves, our future financial results may 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 may 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 returns and we closely monitor product sales and inventory in the retail channel in an effort to maintain adequate reserves. In the past, returns have not differed significantly from these reserves. However, if we experience actual returns that significantly exceed reserves, it may result in lower net revenue.

Unanticipated changes in our income tax rates may affect our future financial results.

Our future effective income tax rates may 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. These continuous examinations may result in unforeseen tax-related liabilities, which may harm our future financial results.

Amortization of acquired intangible assets and impairment charges may cause significant fluctuation in our net income.

Our acquisitions have resulted in significant expenses, including amortization and impairment of acquired technology and other acquired intangible assets, and impairment of goodwill. Total costs and expenses in these categories were approximately \$53 million in fiscal 2012, \$85 million in fiscal 2011, and \$85 million in fiscal 2010. Although under current accounting rules goodwill is not 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 may not have been reasonably foreseen in prior periods. The total costs and expenses for fiscal 2011 included a goodwill and intangible asset impairment charge of \$30 million for our Intuit Health reporting unit. We recorded the goodwill and intangible assets for that reporting unit on our balance sheet in May 2010 in connection with our acquisition of Medfusion, Inc. At January 31, 2013, we had \$2.2 billion in goodwill and \$187 million in net acquired intangible assets on our balance sheet, both of which may be subject to impairment charges in the future. New acquisitions, and any impairment of the value of acquired intangible assets, may have a significant negative impact on our future financial results.

Our acquisition and divestiture activities may disrupt our ongoing business, may involve increased expenses 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. Acquisitions 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;
- inability to realize synergies expected to result from an acquisition;
- challenges retaining the key employees, customers, resellers and other business partners of the acquired operation;
- the internal control environment of an acquired entity may not be consistent with our standards and may require significant time and resources to improve;
- unidentified issues not discovered in our due diligence process, including product or service quality issues, intellectual property issues and legal contingencies.

Because acquisitions and divestitures are inherently risky, our transactions may not be successful and may, in some cases, harm our operating results or financial condition. Although we typically fund our acquisitions through cash available from operations, if we were to use debt to fund acquisitions or for other purposes, our interest expense and leverage would increase significantly, and if we were to issue equity securities as consideration in an acquisition, current shareholders' percentage ownership and earnings per share would be diluted.

We have \$500 million in debt outstanding and may incur other debt in the future, which may adversely affect our financial condition and future financial results.

In fiscal 2007 we issued \$500 million in senior unsecured notes due in March 2012 and \$500 million in senior unsecured notes due in March 2017. We repaid the March 2012 notes when they became due using cash from operations. As the March 2017 debt matures, we will have to expend significant resources to either repay or refinance these notes. If we decide to refinance the

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notes, we may be required to do so on different or less favorable terms or we may be unable to refinance the notes at all, both of which may adversely affect our financial condition.

We have also entered into a \$500 million five-year revolving credit facility. Although we have no current plans to request any advances under this credit facility, we may use the proceeds of any future borrowing for general corporate purposes, including future acquisitions.

This debt may adversely affect our financial condition and future financial results by, among other things:

• increasing our vulnerability to downturns in our business, to competitive pressures and to adverse economic and industry conditions;

• requiring the dedication of a portion of our expected cash from operations to service our indebtedness, thereby

• reducing the amount of expected cash flow available for other purposes, including capital expenditures and acquisitions; and

• limiting our flexibility in planning for, or reacting to, changes in our businesses and our industries.

Our current revolving credit facility imposes restrictions on us, including restrictions on our ability to create liens on our assets and the ability of our subsidiaries to incur indebtedness, and require us to maintain compliance with specified financial ratios. Our ability to comply with these ratios may be affected by events beyond our control. In addition, our short- and long-term debt includes covenants that may adversely affect our ability to incur certain liens or engage in certain types of sale and leaseback transactions. If we breach any of the covenants under our short- and long-term debt or our revolving credit facility and do not obtain a waiver from the lenders, then, subject to applicable cure periods, any outstanding indebtedness may be declared immediately due and payable.

In addition, changes by any rating agency to our credit rating may negatively impact the value and liquidity of both our debt and equity securities. If our credit ratings are downgraded or other negative action is taken, the interest rate payable by us under our revolving credit facility may increase. In addition, any downgrades in our credit ratings may affect our ability to obtain additional financing in the future and may affect the terms of any such financing.

We are subject to risks associated with information disseminated through our services.

The laws relating to the liability of online services companies for information such as online content disseminated through their services are subject to frequent challenges. In spite of settled law in the U.S., claims are made against online services companies by parties who disagree with the content. Where our online content is accessed on the internet outside of the U.S., challenges may be brought under foreign laws which do not provide the same protections for online services companies as in the U.S. These challenges in either U.S. or foreign jurisdictions may rise to legal claims alleging defamation, libel, invasion of privacy, negligence, copyright or trademark infringement, or other theories based on the nature and content of the materials disseminated through the services. Certain of our services include content generated by users of our online services. Although this content is not generated by us, claims of defamation or other injury may be made against us for that content. Any costs incurred as a result of this potential liability may harm our business.

Our stock price may be volatile and your investment could lose value.

Our stock price is subject to changes in recommendations or earnings estimates by financial analysts, changes in investors' or analysts' valuation measures for our stock, our credit ratings and market trends unrelated to our performance. Furthermore, speculation in the press or investment community about our strategic position, financial condition, results of operations, business or security of our products, can cause changes in our stock price. These factors, as well as general economic and political conditions and the timing of announcements in the public market regarding new products, product enhancements or technological advances by our competitors or us, and any announcements by us of acquisitions, major transactions, or management changes may adversely affect our stock price. Further, any changes in the amounts or frequency of share repurchases or dividends may also adversely affect our stock price. A significant drop in our stock price could expose us to the risk of securities class actions lawsuits, which may result in substantial costs and divert management's attention and resources, which may adversely affect our business.

Our business depends on our strong reputation and the value of our brands.

Developing and maintaining awareness of our brands is critical to achieving widespread acceptance of our existing and future products and services and is an important element in attracting new customers. Adverse publicity (whether

or not justified) relating to events or activities attributed to us, our employees or agents may tarnish our reputation and reduce the value of our brands. Damage to our reputation and loss of brand equity may reduce demand for our products and services and thus have an adverse effect on our future financial results, as well as require additional resources to rebuild our reputation and restore the value of the brands.

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ITEM 2

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Stock repurchase activity during the three months ended January 31, 2013 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
November 1, 2012 through November 30, 2012	840,000	\$59.55	840,000	\$1,590,037,922
December 1, 2012 through December 31, 2012	779,800	\$60.43	779,800	\$1,542,914,795
January 1, 2013 through January 31, 2013	46,565	\$61.33	46,565	\$1,540,059,014
Total	1,666,365	\$60.01	1,666,365	

Notes:

All of the shares purchased as part of publicly announced plans during the three months ended January 31, 2013 were purchased under a plan we announced on August 18, 2011 under which we are authorized to repurchase up to 1.5% of our common stock from time to time over a three-year period ending on August 15, 2014. At January 31, 2013, authorization from our Board of Directors to expend up to \$1.5 billion remained available under that plan.

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ITEM 6

EXHIBITS

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

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference
10.01+	Form of Director Restricted Stock Units Initial Grant Agreement	X	
10.02+	Form of Director Restricted Stock Units Initial Grant Agreement for Mid-Year Directors	X	
10.03+	Form of Director Restricted Stock Units Succeeding Grant Agreement	X	
10.04+	Form of Director Restricted Stock Units Succeeding Grant Agreement for Mid-Year Directors	X	
10.05+	Form of Director Restricted Stock Units Conversion Grant Agreement	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	
101.INS	XBRL Instance Document	X	
101.SCH	XBRL Taxonomy Extension Schema	X	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	X	
101.LAB	XBRL Taxonomy Extension Label Linkbase	X	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	X	
101.DEF	XBRL Taxonomy Extension Definition Linkbase	X	

+ Indicates a management contract or compensatory plan or arrangement.

* This exhibit is intended to be furnished and shall not be deemed “filed” for purposes of the Securities Exchange Act of 1934, as amended.

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SIGNATURES

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: March 1, 2013

By: /s/ R. NEIL WILLIAMS
R. Neil Williams
Senior Vice President and Chief Financial Officer (Authorized
Officer and Principal Financial Officer)

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EXHIBIT INDEX

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10.03+	Form of Director Restricted Stock Units Succeeding Grant Agreement	X	
10.04+	Form of Director Restricted Stock Units Succeeding Grant Agreement for Mid-Year Directors	X	
10.05+	Form of Director Restricted Stock Units Conversion Grant Agreement	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	
101.INS	XBRL Instance Document	X	
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