

Edgar Filing: INTUIT INC - Form 10-Q

INTUIT INC
Form 10-Q
May 22, 2018

false--07-31Q320182018-04-300000896878Large Accelerated FilerP3Y00000.340.260.05P4YP5Y0.350.269
0000896878 2017-08-01 2018-04-30 0000896878 2018-05-16 0000896878 2016-08-01 2017-04-30 0000896878
2017-02-01 2017-04-30 0000896878 2018-02-01 2018-04-30 0000896878 2017-07-31 0000896878 2018-04-30
0000896878 us-gaap:RetainedEarningsMember 2016-08-01 2017-04-30 0000896878 2017-04-30 0000896878
2016-07-31 0000896878 us-gaap:RetainedEarningsMember 2016-07-31 0000896878
intu:CommonStockAndAdditionalPaidInCapitalMember 2016-07-31 0000896878
intu:CommonStockAndAdditionalPaidInCapitalMember 2017-04-30 0000896878
us-gaap:AccumulatedOtherComprehensiveIncomeMember 2016-07-31 0000896878
intu:CommonStockAndAdditionalPaidInCapitalMember 2016-08-01 2017-04-30 0000896878
us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-04-30 0000896878 us-gaap:TreasuryStockMember
2016-07-31 0000896878 us-gaap:TreasuryStockMember 2016-08-01 2017-04-30 0000896878
us-gaap:CommonStockMember 2016-07-31 0000896878 us-gaap:TreasuryStockMember 2017-04-30 0000896878
us-gaap:RetainedEarningsMember 2017-04-30 0000896878 us-gaap:CommonStockMember 2016-08-01 2017-04-30
0000896878 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2016-08-01 2017-04-30 0000896878
us-gaap:CommonStockMember 2017-04-30 0000896878 us-gaap:CommonStockMember 2018-04-30 0000896878
us-gaap:TreasuryStockMember 2017-08-01 2018-04-30 0000896878
us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-04-30 0000896878
intu:CommonStockAndAdditionalPaidInCapitalMember 2018-04-30 0000896878 us-gaap:CommonStockMember
2017-08-01 2018-04-30 0000896878 us-gaap:RetainedEarningsMember 2017-08-01 2018-04-30 0000896878
us-gaap:RetainedEarningsMember 2017-07-31 0000896878 us-gaap:CommonStockMember 2017-07-31 0000896878
us-gaap:TreasuryStockMember 2017-07-31 0000896878 us-gaap:TreasuryStockMember 2018-04-30 0000896878
intu:CommonStockAndAdditionalPaidInCapitalMember 2017-08-01 2018-04-30 0000896878
us-gaap:RetainedEarningsMember 2018-04-30 0000896878 intu:CommonStockAndAdditionalPaidInCapitalMember
2017-07-31 0000896878 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-07-31 0000896878
us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-08-01 2018-04-30 0000896878
us-gaap:FairValueInputsLevel1Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:EquitySecuritiesMember 2017-07-31 0000896878 us-gaap:EstimateOfFairValueFairValueDisclosureMember
us-gaap:FairValueMeasurementsRecurringMember 2017-07-31 0000896878 us-gaap:FairValueInputsLevel1Member
us-gaap:FairValueMeasurementsRecurringMember us-gaap:CorporateNoteSecuritiesMember 2017-07-31
0000896878 us-gaap:FairValueInputsLevel1Member us-gaap:FairValueMeasurementsRecurringMember 2018-04-30
0000896878 us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:CorporateNoteSecuritiesMember 2018-04-30 0000896878 us-gaap:FairValueInputsLevel2Member
us-gaap:FairValueMeasurementsRecurringMember 2018-04-30 0000896878 us-gaap:FairValueInputsLevel2Member
us-gaap:FairValueMeasurementsRecurringMember us-gaap:AuctionRateSecuritiesMember 2017-07-31 0000896878
us-gaap:EstimateOfFairValueFairValueDisclosureMember us-gaap:FairValueMeasurementsRecurringMember
us-gaap:CorporateNoteSecuritiesMember 2018-04-30 0000896878
us-gaap:EstimateOfFairValueFairValueDisclosureMember us-gaap:FairValueMeasurementsRecurringMember
2018-04-30 0000896878 us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember
2017-07-31 0000896878 us-gaap:FairValueInputsLevel3Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:AuctionRateSecuritiesMember 2018-04-30 0000896878 us-gaap:FairValueInputsLevel3Member
us-gaap:FairValueMeasurementsRecurringMember us-gaap:AuctionRateSecuritiesMember 2017-07-31 0000896878
us-gaap:EstimateOfFairValueFairValueDisclosureMember us-gaap:FairValueMeasurementsRecurringMember
us-gaap:USGovernmentAgenciesDebtSecuritiesMember 2017-07-31 0000896878
us-gaap:FairValueInputsLevel3Member us-gaap:FairValueMeasurementsRecurringMember 2017-07-31 0000896878
us-gaap:FairValueInputsLevel3Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:CorporateNoteSecuritiesMember 2017-07-31 0000896878 us-gaap:FairValueInputsLevel2Member
us-gaap:FairValueMeasurementsRecurringMember us-gaap:USGovernmentAgenciesDebtSecuritiesMember
2018-04-30 0000896878 us-gaap:EstimateOfFairValueFairValueDisclosureMember

Edgar Filing: INTUIT INC - Form 10-Q

us-gaap:FairValueMeasurementsRecurringMember intu:InLongTermInvestmentsMember 2017-07-31 0000896878
us-gaap:FairValueInputsLevel1Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:CashAndCashEquivalentsMember 2018-04-30 0000896878
us-gaap:EstimateOfFairValueFairValueDisclosureMember us-gaap:FairValueMeasurementsRecurringMember
intu:AvailableForSaleDebtSecuritiesInInvestmentsMember 2018-04-30 0000896878
us-gaap:EstimateOfFairValueFairValueDisclosureMember us-gaap:FairValueMeasurementsRecurringMember
intu:InLongTermInvestmentsMember 2018-04-30 0000896878 us-gaap:FairValueInputsLevel1Member
us-gaap:FairValueMeasurementsRecurringMember intu:AvailableForSaleDebtSecuritiesInInvestmentsMember
2017-07-31 0000896878 us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember
intu:AvailableForSaleDebtSecuritiesInInvestmentsMember 2017-07-31 0000896878
us-gaap:FairValueInputsLevel3Member us-gaap:FairValueMeasurementsRecurringMember
intu:AvailableForSaleDebtSecuritiesInFundsHeldForCustomersMember 2018-04-30 0000896878
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:CashAndCashEquivalentsMember 2018-04-30 0000896878 us-gaap:FairValueInputsLevel3Member
us-gaap:FairValueMeasurementsRecurringMember us-gaap:CashAndCashEquivalentsMember 2018-04-30
0000896878 us-gaap:EstimateOfFairValueFairValueDisclosureMember
us-gaap:FairValueMeasurementsRecurringMember intu:InLongTermInvestmentsMember 2017-07-31 0000896878
intu:LongTermInvestmentMember 2017-07-31 0000896878 intu:FundsHeldForCustomersMember 2018-04-30
0000896878 us-gaap:CashAndCashEquivalentsMember 2018-04-30 0000896878 intu:LongTermInvestmentMember
2018-04-30 0000896878 us-gaap:CashAndCashEquivalentsMember 2017-07-31 0000896878
us-gaap:ShortTermInvestmentsMember 2018-04-30 0000896878 us-gaap:ShortTermInvestmentsMember 2017-07-31
0000896878 intu:FundsHeldForCustomersMember 2017-07-31 0000896878 us-gaap:MunicipalBondsMember
2018-04-30 0000896878 intu:CashAndCashEquivalentsIncludingFundsHeldForCustomersMember 2018-04-30
0000896878 us-gaap:MunicipalBondsMember 2017-07-31 0000896878 us-gaap:DepositsMember 2018-04-30
0000896878 us-gaap:OtherLongTermInvestmentsMember 2017-07-31 0000896878
us-gaap:USGovernmentAgenciesDebtSecuritiesMember 2017-07-31 0000896878
us-gaap:AvailableforsaleSecuritiesMember 2018-04-30 0000896878 us-gaap:DepositsMember 2017-07-31
0000896878 intu:CashAndCashEquivalentsIncludingFundsHeldForCustomersMember 2017-07-31 0000896878
us-gaap:USGovernmentAgenciesDebtSecuritiesMember 2018-04-30 0000896878
us-gaap:CorporateNoteSecuritiesMember 2018-04-30 0000896878 us-gaap:AuctionRateSecuritiesMember
2018-04-30 0000896878 us-gaap:AuctionRateSecuritiesMember 2017-07-31 0000896878
us-gaap:OtherLongTermInvestmentsMember 2018-04-30 0000896878 us-gaap:CorporateNoteSecuritiesMember
2017-07-31 0000896878 us-gaap:AvailableforsaleSecuritiesMember 2017-07-31 0000896878 2016-08-01 2017-07-31
0000896878 intu:ExactorInc.TSheetsInc.andApplatixMember 2017-11-01 2018-01-31 0000896878
intu:ExactorInc.TSheetsInc.andApplatixMember 2018-01-31 0000896878
intu:ExactorInc.TSheetsInc.andApplatixMember us-gaap:NoncompeteAgreementsMember 2018-01-31 0000896878
intu:ExactorInc.TSheetsInc.andApplatixMember us-gaap:CustomerListsMember 2018-01-31 0000896878
intu:ExactorInc.TSheetsInc.andApplatixMember us-gaap:TechnologyBasedIntangibleAssetsMember 2018-01-31
0000896878 us-gaap:RevolvingCreditFacilityMember intu:February12016CreditAgreementMember
us-gaap:LineOfCreditMember us-gaap:MinimumMember us-gaap:BaseRateMember 2016-02-01 2016-02-01
0000896878 us-gaap:RevolvingCreditFacilityMember intu:February12016CreditAgreementMember
us-gaap:LineOfCreditMember 2016-08-01 2017-04-30 0000896878 us-gaap:RevolvingCreditFacilityMember
intu:February12016CreditAgreementMember us-gaap:LineOfCreditMember 2016-02-01 0000896878
us-gaap:RevolvingCreditFacilityMember intu:February12016CreditAgreementMember us-gaap:LineOfCreditMember
us-gaap:MinimumMember us-gaap:LondonInterbankOfferedRateLIBORMember 2016-02-01 2016-02-01
0000896878 us-gaap:RevolvingCreditFacilityMember intu:February12016CreditAgreementMember
us-gaap:LineOfCreditMember 2017-08-01 2018-04-30 0000896878 intu:February12016CreditAgreementMember
us-gaap:LineOfCreditMember 2016-02-01 0000896878 intu:TermLoanMember
intu:February12016CreditAgreementMember us-gaap:LineOfCreditMember 2018-04-30 0000896878
us-gaap:RevolvingCreditFacilityMember intu:February12016CreditAgreementMember us-gaap:LineOfCreditMember
2018-04-30 0000896878 us-gaap:RevolvingCreditFacilityMember intu:February12016CreditAgreementMember

Edgar Filing: INTUIT INC - Form 10-Q

2017-08-01 2018-04-30 0000896878 us-gaap:RevolvingCreditFacilityMember
intu:February12016CreditAgreementMember us-gaap:LineOfCreditMember us-gaap:MaximumMember
us-gaap:LondonInterbankOfferedRateLIBORMember 2016-02-01 2016-02-01 0000896878
us-gaap:RevolvingCreditFacilityMember intu:February12016CreditAgreementMember us-gaap:LineOfCreditMember
2016-02-01 2016-02-01 0000896878 intu:TermLoanMember intu:February12016CreditAgreementMember
us-gaap:LineOfCreditMember 2016-02-01 0000896878 intu:February12016CreditAgreementMember 2016-02-01
0000896878 us-gaap:RevolvingCreditFacilityMember intu:February12016CreditAgreementMember
us-gaap:LineOfCreditMember us-gaap:MaximumMember us-gaap:BaseRateMember 2016-02-01 2016-02-01
0000896878 intu:February12016CreditAgreementMember 2016-02-01 2016-02-01 0000896878
intu:TermLoanMember intu:February12016CreditAgreementMember us-gaap:LineOfCreditMember
us-gaap:MinimumMember us-gaap:BaseRateMember 2016-02-01 2016-02-01 0000896878
intu:February12016CreditAgreementMember us-gaap:LineOfCreditMember 2016-02-01 2016-02-01 0000896878
intu:TermLoanMember intu:February12016CreditAgreementMember us-gaap:LineOfCreditMember
us-gaap:MinimumMember us-gaap:LondonInterbankOfferedRateLIBORMember 2016-02-01 2016-02-01
0000896878 intu:TermLoanMember intu:February12016CreditAgreementMember 2016-08-01 2017-04-30
0000896878 intu:TermLoanMember intu:February12016CreditAgreementMember us-gaap:LineOfCreditMember
us-gaap:MaximumMember us-gaap:LondonInterbankOfferedRateLIBORMember 2016-02-01 2016-02-01
0000896878 intu:TermLoanMember intu:February12016CreditAgreementMember us-gaap:LineOfCreditMember
us-gaap:MaximumMember us-gaap:BaseRateMember 2016-02-01 2016-02-01 0000896878 intu:TermLoanMember
intu:February12016CreditAgreementMember 2017-08-01 2018-04-30 0000896878 2017-09-13 0000896878
2017-11-01 2018-01-31 0000896878 us-gaap:ScenarioForecastMember 2017-08-01 2018-07-31 0000896878
us-gaap:SoftwareAndSoftwareDevelopmentCostsMember 2016-08-01 2017-04-30 0000896878
us-gaap:RestrictedStockUnitsRSUMember 2018-04-30 0000896878 us-gaap:EmployeeStockOptionMember
2017-08-01 2018-04-30 0000896878 us-gaap:RestrictedStockUnitsRSUMember 2017-08-01 2018-04-30 0000896878
intu:NewProgramMember 2018-04-30 0000896878 us-gaap:SubsequentEventMember 2018-05-01 2018-05-22
0000896878 us-gaap:EmployeeStockOptionMember 2018-04-30 0000896878
us-gaap:SoftwareAndSoftwareDevelopmentCostsMember 2017-08-01 2018-04-30 0000896878
us-gaap:RestrictedStockUnitsRSUMember 2017-07-31 0000896878 us-gaap:SellingAndMarketingExpenseMember
2016-08-01 2017-04-30 0000896878 us-gaap:CostOfSalesMember 2016-08-01 2017-04-30 0000896878
us-gaap:CostOfSalesMember 2017-02-01 2017-04-30 0000896878
us-gaap:GeneralAndAdministrativeExpenseMember 2018-02-01 2018-04-30 0000896878
us-gaap:SellingAndMarketingExpenseMember 2017-08-01 2018-04-30 0000896878 us-gaap:CostOfSalesMember
2017-08-01 2018-04-30 0000896878 us-gaap:ResearchAndDevelopmentExpenseMember 2016-08-01 2017-04-30
0000896878 us-gaap:ResearchAndDevelopmentExpenseMember 2017-02-01 2017-04-30 0000896878
us-gaap:GeneralAndAdministrativeExpenseMember 2017-02-01 2017-04-30 0000896878
us-gaap:SellingAndMarketingExpenseMember 2017-02-01 2017-04-30 0000896878
us-gaap:GeneralAndAdministrativeExpenseMember 2017-08-01 2018-04-30 0000896878
us-gaap:GeneralAndAdministrativeExpenseMember 2016-08-01 2017-04-30 0000896878
us-gaap:SellingAndMarketingExpenseMember 2018-02-01 2018-04-30 0000896878
us-gaap:ResearchAndDevelopmentExpenseMember 2018-02-01 2018-04-30 0000896878
us-gaap:ResearchAndDevelopmentExpenseMember 2017-08-01 2018-04-30 0000896878
us-gaap:CostOfSalesMember 2018-02-01 2018-04-30 0000896878 us-gaap:OperatingSegmentsMember
intu:ConsumerSegmentMember 2017-02-01 2017-04-30 0000896878 us-gaap:OperatingSegmentsMember
intu:SmallBusinessSelfEmployedSegmentMember 2017-08-01 2018-04-30 0000896878
us-gaap:OperatingSegmentsMember intu:StrategicPartnerSegmentMember 2017-02-01 2017-04-30 0000896878
us-gaap:CorporateNonSegmentMember us-gaap:TechnologyBasedIntangibleAssetsMember 2018-02-01 2018-04-30
0000896878 intu:StrategicPartnerSegmentMember 2017-08-01 2018-04-30 0000896878
us-gaap:OperatingSegmentsMember intu:ConsumerSegmentMember 2018-02-01 2018-04-30 0000896878
intu:StrategicPartnerSegmentMember 2017-02-01 2017-04-30 0000896878 us-gaap:OperatingSegmentsMember
intu:SmallBusinessSelfEmployedSegmentMember 2018-02-01 2018-04-30 0000896878
intu:StrategicPartnerSegmentMember 2018-02-01 2018-04-30 0000896878 us-gaap:OperatingSegmentsMember

Edgar Filing: INTUIT INC - Form 10-Q

2018-02-01 2018-04-30 0000896878 us-gaap:CorporateNonSegmentMember 2017-08-01 2018-04-30 0000896878
us-gaap:OperatingSegmentsMember 2017-02-01 2017-04-30 0000896878 us-gaap:OperatingSegmentsMember
intu:ConsumerSegmentMember 2016-08-01 2017-04-30 0000896878 us-gaap:CorporateNonSegmentMember
2017-02-01 2017-04-30 0000896878 us-gaap:OperatingSegmentsMember
intu:SmallBusinessSelfEmployedSegmentMember 2017-02-01 2017-04-30 0000896878
us-gaap:OperatingSegmentsMember 2016-08-01 2017-04-30 0000896878 us-gaap:OperatingSegmentsMember
intu:SmallBusinessSelfEmployedSegmentMember 2016-08-01 2017-04-30 0000896878
intu:SmallBusinessSelfEmployedSegmentMember 2018-02-01 2018-04-30 0000896878
us-gaap:OperatingSegmentsMember intu:StrategicPartnerSegmentMember 2016-08-01 2017-04-30 0000896878
us-gaap:CorporateNonSegmentMember us-gaap:OtherIntangibleAssetsMember 2017-02-01 2017-04-30 0000896878
intu:SmallBusinessSelfEmployedSegmentMember 2017-02-01 2017-04-30 0000896878
us-gaap:CorporateNonSegmentMember 2018-02-01 2018-04-30 0000896878 us-gaap:CorporateNonSegmentMember
us-gaap:TechnologyBasedIntangibleAssetsMember 2016-08-01 2017-04-30 0000896878
us-gaap:OperatingSegmentsMember 2017-08-01 2018-04-30 0000896878 us-gaap:CorporateNonSegmentMember
2016-08-01 2017-04-30 0000896878 us-gaap:CorporateNonSegmentMember
us-gaap:TechnologyBasedIntangibleAssetsMember 2017-02-01 2017-04-30 0000896878
us-gaap:OperatingSegmentsMember intu:ConsumerSegmentMember 2017-08-01 2018-04-30 0000896878
us-gaap:OperatingSegmentsMember intu:StrategicPartnerSegmentMember 2018-02-01 2018-04-30 0000896878
intu:StrategicPartnerSegmentMember 2016-08-01 2017-04-30 0000896878 us-gaap:CorporateNonSegmentMember
us-gaap:OtherIntangibleAssetsMember 2018-02-01 2018-04-30 0000896878 us-gaap:CorporateNonSegmentMember
us-gaap:TechnologyBasedIntangibleAssetsMember 2017-08-01 2018-04-30 0000896878
intu:ConsumerSegmentMember 2017-08-01 2018-04-30 0000896878 intu:ConsumerSegmentMember 2018-02-01
2018-04-30 0000896878 intu:SmallBusinessSelfEmployedSegmentMember 2017-08-01 2018-04-30 0000896878
us-gaap:CorporateNonSegmentMember us-gaap:OtherIntangibleAssetsMember 2016-08-01 2017-04-30 0000896878
intu:SmallBusinessSelfEmployedSegmentMember 2016-08-01 2017-04-30 0000896878
intu:ConsumerSegmentMember 2017-02-01 2017-04-30 0000896878 intu:ConsumerSegmentMember 2016-08-01
2017-04-30 0000896878 us-gaap:CorporateNonSegmentMember us-gaap:OtherIntangibleAssetsMember 2017-08-01
2018-04-30 0000896878 us-gaap:OperatingSegmentsMember intu:StrategicPartnerSegmentMember 2017-08-01
2018-04-30 intu:business iso4217:USD xbrli:shares intu:extension intu:segment xbrli:shares xbrli:pure iso4217:USD
[Table of Contents](#)

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 April 30, 2018

OR

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

For the transition period from _____ to _____ .

Commission File Number 0-21180

INTUIT INC.

(Exact name of registrant as specified in its charter)

Delaware

(State of incorporation)

2700 Coast Avenue, Mountain View, CA 94043

(Address of principal executive offices)

77-0034661

(IRS employer identification no.)

(650) 944-6000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes 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 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input checked="" type="checkbox"/> Accelerated filer	<input type="checkbox"/> Non-accelerated filer	<input type="checkbox"/> Smaller reporting company	<input type="checkbox"/> Emerging growth company	<input type="checkbox"/>
		(Do not check if a smaller reporting company)			

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 256,588,282 shares of Common Stock, \$0.01 par value, were outstanding at May 16, 2018.

INTUIT INC. FORM 10-Q INDEX

	Page
<u>PART I - FINANCIAL INFORMATION</u>	
<u>ITEM 1: Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Statements of Operations for the three and nine months ended April 30, 2018 and 2017</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended April 30, 2018 and 2017</u>	5
<u>Condensed Consolidated Balance Sheets at April 30, 2018 and July 31, 2017</u>	6
<u>Condensed Consolidated Statements of Stockholders' Equity for the nine months ended April 30, 2018 and 2017</u>	7
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended April 30, 2018 and 2017</u>	8
<u>Notes to Condensed Consolidated Financial Statements</u>	9
<u>ITEM 2: Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
<u>ITEM 3: Quantitative and Qualitative Disclosures about Market Risk</u>	35
<u>ITEM 4: Controls and Procedures</u>	36
<u>PART II - OTHER INFORMATION</u>	
<u>ITEM 1: Legal Proceedings</u>	37
<u>ITEM 1A: Risk Factors</u>	37
<u>ITEM 2: Unregistered Sales of Equity Securities and Use of Proceeds</u>	48
<u>ITEM 6: Exhibits</u>	48
<u>Signatures</u>	49
EX-31.01	
EX-31.02	
EX-32.01	
EX-32.02	
EX-101.INS XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	
EX-101.SCH XBRL Taxonomy Extension Schema	
EX-101.CAL XBRL Taxonomy Extension Calculation Linkbase	
EX-101.LAB XBRL Taxonomy Extension Label Linkbase	
EX-101.PRE XBRL Taxonomy Extension Presentation Linkbase	
EX-101.DEF XBRL Taxonomy Extension Definition Linkbase	
Intuit, the Intuit logo, QuickBooks, TurboTax, Intuit ProConnect, Lacerte, ProSeries, and Mint, among others, are registered trademarks and/or registered service marks of Intuit Inc., or one of its subsidiaries, in the United States and other countries. Other parties' marks are the property of their respective owners.	

Forward-Looking Statements

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 beliefs and expectations regarding seasonality, competition and other trends that affect our business;
 - our expectation that we will continue to invest significant resources in our product development, marketing and sales capabilities;
 - our expectation regarding the impact of newly passed U.S. legislation on Intuit's business and its corporate tax rate;
 - our expectation that we will continue to invest significant management attention and resources in our information technology infrastructure and in our privacy and security capabilities;
 - our expectation that we will work with the broader industry and government to protect our customers from fraud;
 - our expectation that we will be able to protect our customers' data and prevent third parties from using stolen customer information to perpetrate fraud in our tax and other offerings;
 - our expectation that we will generate significant cash from operations;
 - our expectation that connected services revenue as a percentage of our total revenue will continue to grow;
 - our expectations regarding the development of future products, services, business models and technology platforms and our research and development efforts;
 - our assumptions underlying our critical accounting policies and estimates, including our estimates regarding promotional 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 plans with respect to the adoption of Topic 606, including the adoption timing and methodology, as well our expectations and beliefs with respect to its impact on our revenue growth rates and on the timing of our quarterly revenue recognition;
 - our intention not to sell our investments and our belief that it is more likely than not that we will not be required to sell them before recovery at par;
 - our belief that the investments we hold are not other-than-temporarily impaired;
 - our belief that we take prudent measures to mitigate investment related risks;
 - 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 expectation that we will pay approximately \$320 million in income taxes in the fourth quarter of fiscal 2018;
 - 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 intent to permanently reinvest a significant portion of our earnings from foreign operations, and 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, 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 the payment of cash dividends, after taking into account our operating and strategic cash needs;
 - our belief that the credit facility will be available to us should we choose to borrow under it; and
 - our assessments and beliefs regarding the future outcome of pending legal proceedings and inquiries by regulatory authorities, the liability, if any, that Intuit may incur as a result of those proceedings and inquiries, and the impact of any potential losses associated with such proceedings or inquiries on our financial statements.
- 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 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 revise or update any forward-looking statement for any reason.

Table of Contents**PART I - FINANCIAL INFORMATION**
ITEM 1 - FINANCIAL STATEMENTS

	Three Months Ended		Nine Months Ended	
	April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017
<i>(In millions, except per share amounts)</i>				
Net revenue:				
Product	\$ 505	\$ 467	\$ 1,140	\$ 1,063
Service and other	2,420	2,074	3,836	3,272
Total net revenue	2,925	2,541	4,976	4,335
Costs and expenses:				
Cost of revenue:				
Cost of product revenue	27	29	87	95
Cost of service and other revenue	272	205	649	522
Amortization of acquired technology	5	3	10	9
Selling and marketing	549	467	1,326	1,155
Research and development	296	246	875	735
General and administrative	159	146	447	412
Amortization of other acquired intangible assets	2	1	4	2
Total costs and expenses	1,310	1,097	3,398	2,930
Operating income	1,615	1,444	1,578	1,405
Interest expense	(5)	(8)	(16)	(28)
Interest and other income, net	7	3	15	—
Income before income taxes	1,617	1,439	1,577	1,377
Income tax provision	417	475	415	430
Net income	\$ 1,200	\$ 964	\$ 1,162	\$ 947
Basic net income per share	\$ 4.68	\$ 3.76	\$ 4.54	\$ 3.68
Shares used in basic per share calculations	257	256	256	257
Diluted net income per share	\$ 4.59	\$ 3.70	\$ 4.47	\$ 3.63
Shares used in diluted per share calculations	262	260	260	261
Cash dividends declared per common share	\$ 0.39	\$ 0.34	\$ 1.17	\$ 1.02
See accompanying notes.				

Table of Contents

<i>(In millions)</i>	Three Months Ended		Nine Months Ended	
	April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017
Net income	\$1,200	\$ 964	\$1,162	\$ 947
Other comprehensive income (loss), net of income taxes:				
Unrealized gain (loss) on available-for-sale debt securities	(1)	—	(2)	(1)
Foreign currency translation gain (loss)	(9)	(2)	(6)	(3)
Total other comprehensive income (loss), net	(10)	(2)	(8)	(4)
Comprehensive income	\$1,190	\$ 962	\$1,154	\$ 943

See accompanying notes.

Table of Contents

<i>(In millions)</i>	April 30, 2018	July 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,614	\$ 529
Investments	322	248
Accounts receivable, net	309	103
Income taxes receivable	2	63
Prepaid expenses and other current assets	179	100
Current assets before funds held for customers	2,426	1,043
Funds held for customers	419	372
Total current assets	2,845	1,415
Long-term investments	28	31
Property and equipment, net	950	1,030
Goodwill	1,613	1,295
Acquired intangible assets, net	68	22
Long-term deferred income taxes	128	132
Other assets	155	143
Total assets	\$ 5,787	\$ 4,068
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ 50	\$ 50
Accounts payable	325	157
Accrued compensation and related liabilities	286	300
Deferred revenue	1,040	887
Income taxes payable	356	5
Other current liabilities	227	173
Current liabilities before customer fund deposits	2,284	1,572
Customer fund deposits	419	372
Total current liabilities	2,703	1,944
Long-term debt	400	438
Long-term deferred revenue	173	202
Other long-term obligations	147	130
Total liabilities	3,423	2,714
Commitments and contingencies		
Stockholders' equity:		
Preferred stock	—	—
Common stock and additional paid-in capital	5,289	4,857
Treasury stock, at cost	(11,050)	(10,778)
Accumulated other comprehensive loss	(30)	(22)
Retained earnings	8,155	7,297
Total stockholders' equity	2,364	1,354
Total liabilities and stockholders' equity	\$ 5,787	\$ 4,068
See accompanying notes.		

Table of Contents

<i>(In millions, except shares in thousands)</i>	Shares of Common Stock	Common Stock and Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
Balance at July 31, 2017	255,668	\$ 4,857	\$(10,778)	\$ (22)	\$ 7,297	\$ 1,354
Comprehensive income	—	—	—	(8)	1,162	1,154
Issuance of stock under employee stock plans, net of shares withheld for employee taxes	2,776	147	—	—	—	147
Stock repurchases under stock repurchase programs	(1,870)	—	(272)	—	—	(272)
Dividends and dividend rights declared (\$1.17 per share)	—	—	—	—	(304)	(304)
Share-based compensation expense	—	285	—	—	—	285
Balance at April 30, 2018	256,574	\$ 5,289	\$(11,050)	\$ (30)	\$ 8,155	\$ 2,364

<i>(In millions, except shares in thousands)</i>	Shares of Common Stock	Common Stock and Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
Balance at July 31, 2016	257,853	\$ 4,445	\$(9,939)	\$ (32)	\$ 6,687	\$ 1,161
Comprehensive income	—	—	—	(4)	947	943
Issuance of stock under employee stock plans, net of shares withheld for employee taxes	2,642	89	—	—	—	89
Stock repurchases under stock repurchase programs	(4,241)	—	(478)	—	—	(478)
Dividends and dividend rights declared (\$1.02 per share)	—	—	—	—	(267)	(267)
Cumulative effect of change in accounting principle	—	6	—	—	(4)	2
Share-based compensation expense	—	247	—	—	—	247
Balance at April 30, 2017	256,254	\$ 4,787	\$(10,417)	\$ (36)	\$ 7,363	\$ 1,697

See accompanying notes.

Table of Contents

<i>(In millions)</i>	Nine Months Ended	
	April 30, 2018	April 30, 2017
Cash flows from operating activities:		
Net income	\$ 1,162	\$ 947
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	173	156
Amortization of acquired intangible assets	18	18
Share-based compensation expense	283	241
Deferred income taxes	24	(36)
Other	(1)	9
Total adjustments	497	388
Changes in operating assets and liabilities:		
Accounts receivable	(206)	(138)
Income taxes receivable	62	19
Prepaid expenses and other assets	(37)	5
Accounts payable	160	104
Accrued compensation and related liabilities	(8)	(47)
Deferred revenue	120	130
Income taxes payable	351	431
Other liabilities	48	50
Total changes in operating assets and liabilities	490	554
Net cash provided by operating activities	2,149	1,889
Cash flows from investing activities:		
Purchases of corporate and customer fund investments	(303)	(286)
Sales of corporate and customer fund investments	87	332
Maturities of corporate and customer fund investments	137	150
Net change in cash and cash equivalents held to satisfy customer fund obligations	(47)	(18)
Net change in customer fund deposits	47	18
Purchases of property and equipment	(97)	(178)
Acquisitions of businesses, net of cash acquired	(363)	—
Other	(49)	(40)
Net cash used in investing activities	(588)	(22)
Cash flows from financing activities:		
Proceeds from borrowings under revolving credit facility	800	150
Repayments on borrowings under revolving credit facility	(800)	(150)
Repayment of debt	(38)	(500)
Proceeds from issuance of stock under employee stock plans	205	150
Payments for employee taxes withheld upon vesting of restricted stock units	(58)	(61)
Cash paid for purchases of treasury stock	(272)	(473)
Dividends and dividend rights paid	(305)	(265)
Other	(1)	—
Net cash used in financing activities	(469)	(1,149)
Effect of exchange rates on cash and cash equivalents	(7)	(6)
Net increase in cash and cash equivalents	1,085	712
Cash and cash equivalents at beginning of period	529	638

Cash and cash equivalents at end of period

\$1,614 \$1,350

See accompanying notes.

Table of Contents

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Intuit helps consumers, small businesses, and the self-employed prosper by delivering financial management and compliance products and services. We also provide specialized tax products to accounting professionals, who are key partners that help us reach small business customers.

Our flagship brands, QuickBooks and TurboTax, help customers run their small businesses, pay employees and bills, separate business and personal expenses, track their money, and file income taxes. ProSeries and Lacerte are our leading tax preparation offerings for professional accountants. Incorporated in 1984 and headquartered in Mountain View, California, we sell our products and services primarily in the United States.

Basis of Presentation

These condensed consolidated financial statements include the financial statements of Intuit and its wholly owned subsidiaries. We have eliminated all significant intercompany balances and transactions in consolidation. We have included all adjustments, consisting only of normal recurring items, which we considered necessary for a fair presentation of our financial results for the interim periods presented. We have reclassified certain amounts previously reported in our financial statements to conform to the current presentation, including amounts related to reportable segments. See Note 10, "Segment Information," for more information.

As discussed in Note 4, we acquired TSheets.com LLC, Exactor, Inc., and Applatix, Inc. in the second quarter of fiscal 2018. We have included the results of operations for these companies in our consolidated results of operations from the dates of acquisition. See Note 4, "Business Combinations," for more information.

These unaudited condensed consolidated financial statements and accompanying notes should be read together with the audited consolidated financial statements in Item 8 of our Annual Report on Form 10-K for the fiscal year ended July 31, 2017. Results for the nine months ended April 30, 2018 do not necessarily indicate the results we expect for the fiscal year ending July 31, 2018 or any other future period.

Seasonality

Our Consumer offerings have significant seasonal patterns and revenue from those income tax preparation products and services is heavily concentrated in our third fiscal quarter ending April 30.

Significant Accounting Policies

We describe our significant accounting policies in Note 1 to the financial statements in Item 8 of our Annual Report on Form 10-K for the fiscal year ended July 31, 2017. There have been no changes to our significant accounting policies during the first nine months of fiscal 2018.

Use of Estimates

In preparing our consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP), we make certain estimates and assumptions that affect the amounts reported in our financial statements and the disclosures made in the accompanying notes. For example, we use estimates in determining the appropriate levels of reserves for product returns, promotional discounts and rebates, the collectibility of accounts receivable, the appropriate levels of various accruals including accruals for litigation contingencies, the amount of our worldwide tax provision, and the realizability of deferred tax assets. We also use estimates in determining the remaining economic lives and fair values of acquired intangible assets, property and equipment, and other long-lived assets. In addition, we use assumptions to estimate the fair value of reporting units and share-based compensation. Despite our intention to establish accurate estimates and use reasonable assumptions, actual results may differ from our estimates.

Table of Contents**Computation of Net Income (Loss) Per Share**

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

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

All of the RSUs we grant have dividend rights. Dividend rights are accumulated and paid when the underlying RSUs vest. Since the dividend rights are subject to the same vesting requirements as the underlying equity awards they are considered a contingent transfer of value. Consequently, the RSUs are not considered participating securities and we do not present them separately in earnings per share.

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

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

	Three Months Ended		Nine Months Ended	
	April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017
<i>(In millions, except per share amounts)</i>				
Numerator:				
Net income	\$1,200	\$ 964	\$1,162	\$ 947
Denominator:				
Shares used in basic per share amounts:				
Weighted average common shares outstanding	257	256	256	257
Shares used in diluted per share amounts:				
Weighted average common shares outstanding	257	256	256	257
Dilutive common equivalent shares from stock options and restricted stock awards	5	4	4	4
Dilutive weighted average common shares outstanding	262	260	260	261
Basic and diluted net income per share:				
Basic net income per share	\$4.68	\$ 3.76	\$4.54	\$ 3.68
Diluted net income per share	\$4.59	\$ 3.70	\$4.47	\$ 3.63
Shares excluded from diluted net income per share:				
Weighted average stock options and restricted stock units that have been excluded from dilutive common equivalent shares outstanding due to their anti-dilutive effect	—	3	2	4

Concentration of Credit Risk and Significant Customers

No customer accounted for 10% or more of total net revenue in the three or nine months ended April 30, 2018 or April 30, 2017. No customer accounted for 10% or more of gross accounts receivable at April 30, 2018 or July 31, 2017.

Accounting Standards Not Yet Adopted

Goodwill Impairment - In January 2017 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-04, *“Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.”* This new standard eliminates Step 2 from the goodwill impairment test. Instead, an entity should compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the

Table of Contents

reporting unit's fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, which means that it will be effective for us in the first quarter of our fiscal year beginning August 1, 2020. Early adoption is permitted. We are currently evaluating the impact of our pending adoption of ASU 2017-04 on our consolidated financial statements.

Business Combinations - In January 2017 the FASB issued ASU 2017-01, "*Business Combinations (Topic 805): Clarifying the Definition of a Business*." This new standard clarifies the definition of a business in order to allow for the evaluation of whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, which means that it will be effective for us in the first quarter of our fiscal year beginning August 1, 2018. Early adoption is permitted. We are currently evaluating the impact of our pending adoption of ASU 2017-01 on our consolidated financial statements.

Statement of Cash Flows - In August 2016 the FASB issued ASU 2016-15, "*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*." This new standard will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The standard is effective for fiscal years beginning after December 15, 2017, which means that it will be effective for us in the first quarter of our fiscal year beginning August 1, 2018. The standard will require adoption on a retrospective basis unless it is impracticable to apply, in which case we would be required to apply the amendments prospectively as of the earliest date practicable. We are currently evaluating the impact of our pending adoption of ASU 2016-15 on our consolidated financial statements.

Financial Instruments - In June 2016 the FASB issued ASU 2016-13, "*Financial Instruments—Credit Losses (Topic 326)*." This new standard requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, which means that it will be effective for us in the first quarter of our fiscal year beginning August 1, 2020. Earlier adoption is permitted in the first quarter of our fiscal year beginning August 1, 2019. We are currently evaluating the impact of our pending adoption of ASU 2016-13 on our consolidated financial statements.

Leases - In February 2016 the FASB issued ASU 2016-02, "*Leases (Topic 842)*." This new standard amends a number of aspects of lease accounting, including requiring lessees to recognize operating leases with a term greater than one year on their balance sheet as a right-of-use asset and corresponding lease liability, measured at the present value of the lease payments. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, which means that it will be effective for us in the first quarter of our fiscal year beginning August 1, 2019. Early adoption is permitted. This standard is required to be adopted using a modified retrospective approach. We are currently evaluating the impact of our pending adoption of ASU 2016-02 on our consolidated financial statements.

Revenue Recognition - In May 2014 the FASB issued ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*". This new standard supersedes nearly all existing revenue recognition guidance under U.S. GAAP. Under the new standard, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible that more judgment and estimates may be required within the revenue recognition process than is required under present U.S. GAAP. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price, and allocating the transaction price to each separate performance obligation. The new standard also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. The new standard is effective for reporting periods beginning after December 15, 2017, which means that it is effective for us beginning August 1, 2018.

The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method) or retrospectively with the cumulative effect of applying the guidance recognized in retained earnings as of the date of adoption (modified retrospective method). We plan to adopt Topic 606 utilizing the full retrospective transition method when it becomes effective for us in the first fiscal quarter beginning August 1, 2018. In preparation for adoption of the standard, we have implemented internal controls and processes and key system functionality needed to enable the preparation of financial information and have reached conclusions on key accounting assessments related to the standard.

The most significant impact of the standard relates to the timing and amount of revenue recognized for our QuickBooks Desktop solutions and our consumer and professional tax desktop solutions. Our QuickBooks Desktop solutions include both packaged software products and software subscriptions.

Our QuickBooks Desktop packaged software products include a software license as well as enhancements and connected services. Under the current standard, we recognize revenue for the QuickBooks Desktop packaged

Edgar Filing: INTUIT INC - Form 10-Q

software products ratably over the period that enhancements and connected services are provided, which is approximately three years. Under the new standard, we will recognize revenue for our QuickBooks Desktop packaged software products at the time the software license is delivered. We have determined that the enhancements and connected services included in our QuickBooks Desktop packaged software product are immaterial within the context of the contract.

Our QuickBooks Desktop software subscriptions include a software license, version protection, enhancements, support and various connected services. Under the current standard, we recognize revenue for our QuickBooks Desktop software subscriptions ratably over the subscription term, which is generally one year. Under the new standard, we will recognize revenue for the software license and version protection at the time they are delivered and will recognize revenue for support

Table of Contents

and connected services over the subscription term as the services are provided. We have determined that the enhancements included in our QuickBooks Desktop software subscriptions are immaterial within the context of the contract.

We expect the timing of the revenue for our QuickBooks Desktop solutions, which are included in our Small Business & Self-Employed reporting segment, to shift to earlier quarters within each fiscal year as a result of these changes.

With respect to our consumer and professional tax desktop solutions, under the current standard, we recognize all revenue related to the desktop solutions as services are provided. Under the new standard, we will recognize revenue for the desktop tax preparation software license and related tax form updates as they are delivered. We will recognize revenue for our electronic filing and connected services as those services are provided. As sales and delivery of desktop tax preparation software solutions are concentrated from November through April, we expect the timing of the related desktop revenue for our Consumer and Strategic Partner reporting segments to shift to earlier quarters within each fiscal year as a result of these changes.

Due to the upfront recognition of our QuickBooks Desktop solutions and the shift in timing related to the desktop revenue for our Consumer and Strategic Partner segments, upon adoption, we will remove a portion of our deferred revenue from our liabilities through a cumulative adjustment to retained earnings.

Under Topic 606 we do not expect our annual total and reporting segment revenue growth rates to be significantly different as compared to growth rates under the current standard.

Under the new standard, we are required to recognize an asset for the incremental costs of obtaining a contract with a customer if we expect the benefit of those costs to be longer than one year. We have determined that certain sales commissions meet the requirements to be capitalized. The total capitalized costs to obtain a contact will be included in prepaid expenses and other current assets and other assets on our consolidated balance sheets upon adoption. We do not expect the deferral of incremental commission costs to be material.

We do not expect that any other recently issued accounting pronouncements will have a significant effect on our financial statements.

2. Fair Value Measurements

Fair Value Hierarchy

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

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

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

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

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

Table of Contents**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

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

(In millions)	April 30, 2018				July 31, 2017			
	Level 1	Level 2	Level 3	Total Fair Value	Level 1	Level 2	Level 3	Total Fair Value
Assets:								
Cash equivalents, primarily money market funds and savings deposit accounts	\$1,288	\$—	\$—	\$1,288	\$181	\$—	\$—	\$181
Time deposits	—	75	—	75	—	—	—	—
Available-for-sale debt securities:								
Municipal bonds	—	46	—	46	—	63	—	63
Corporate notes	—	394	—	394	—	382	—	382
U.S. agency securities	—	7	—	7	—	3	—	3
Municipal auction rate securities	—	—	15	15	—	—	15	15
Total available-for-sale securities	—	447	15	462	—	448	15	463
Total assets measured at fair value on a recurring basis	\$1,288	\$522	\$15	\$1,825	\$181	\$448	\$15	\$644

The following table summarizes our cash equivalents, time deposits, and available-for-sale debt securities by balance sheet classification and level in the fair value hierarchy at the dates indicated.

(In millions)	April 30, 2018				July 31, 2017			
	Level 1	Level 2	Level 3	Total Fair Value	Level 1	Level 2	Level 3	Total Fair Value
Cash equivalents:								
In cash and cash equivalents	\$1,288	\$—	\$—	\$1,288	\$181	\$—	\$—	\$181
Time deposits:								
In investments	\$—	\$75	\$—	\$75	\$—	\$—	\$—	\$—
Available-for-sale debt securities:								
In investments	\$—	\$247	\$—	\$247	\$—	\$248	\$—	\$248
In funds held for customers	—	200	—	200	—	200	—	200
In long-term investments	—	—	15	15	—	—	15	15
Total available-for-sale debt securities	\$—	\$447	\$15	\$462	\$—	\$448	\$15	\$463

We value our Level 1 assets, consisting primarily of money market funds and savings deposit accounts, using quoted prices in active markets for identical instruments. Financial assets whose fair values we measure on a recurring basis using Level 2 inputs consist of municipal bonds, corporate notes, U.S. agency securities, and time deposits. We measure the fair values of these assets with the help of a pricing service that either provides quoted market prices in active markets for identical or similar securities or uses observable inputs for their pricing without applying significant adjustments. Our fair value processes include controls that are designed to ensure that we record appropriate fair values for our Level 2 investments. These controls include comparison to pricing provided by a secondary pricing service or investment manager, validation of pricing sources and models, review of key model inputs, analysis of period-over-period price fluctuations, and independent recalculation of prices where appropriate.

Financial assets whose fair values we measure using significant unobservable (Level 3) inputs consist of municipal auction rate securities that are no longer liquid. We estimate the fair values of the auction rate securities using a discounted cash flow model. We continue to classify them as long-term investments based on the maturities of the underlying securities at that date. We do not intend to sell our municipal auction rate securities. In addition, it is more likely than not that we will not be required to sell them before recovery at par, which may be at maturity.

There were no transfers between Level 1, Level 2, and Level 3 of the fair value hierarchy during the nine months ended April 30, 2018.

Table of Contents**3. Cash and Cash Equivalents, Investments, and Funds Held for Customers**

We consider highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. In all periods presented, cash equivalents primarily consist of money market funds and savings deposit accounts, investments consist of available-for-sale investment-grade debt securities and time deposits, and funds held for customers consist of cash and cash equivalents and investment grade available-for-sale debt securities. 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 in debt securities by limiting our holdings with any individual issuer.

The following table summarizes our cash and cash equivalents, investments, and funds held for customers by balance sheet classification at the dates indicated.

	April 30, 2018		July 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<i>(In millions)</i>				
Classification on balance sheets:				
Cash and cash equivalents	\$1,614	\$1,614	\$529	\$529
Investments	325	322	247	248
Funds held for customers	419	419	372	372
Long-term investments	28	28	31	31
Total cash and cash equivalents, investments, and funds held for customers	\$2,386	\$2,383	\$1,179	\$1,180

The following table summarizes our cash and cash equivalents, investments, and funds held for customers by investment category at the dates indicated.

	April 30, 2018		July 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<i>(In millions)</i>				
Type of issue:				
Total cash and cash equivalents	\$1,833	\$1,833	\$701	\$701
Time deposits	75	75	—	—
Available-for-sale debt securities:				
Municipal bonds	46	46	63	63
Corporate notes	397	394	381	382
U.S. agency securities	7	7	3	3
Municipal auction rate securities	15	15	15	15
Total available-for-sale debt securities	465	462	462	463
Other long-term investments	13	13	16	16
Total cash and cash equivalents, investments, and funds held for customers	\$2,386	\$2,383	\$1,179	\$1,180

We use the specific identification method to compute gains and losses on investments. We include realized gains and losses on our available-for-sale debt securities in interest and other income on our statements of operations. Gross realized gains and losses on our available-for-sale debt securities for the three and nine months ended April 30, 2018 and April 30, 2017 were not significant.

We accumulate unrealized gains and losses on our available-for-sale debt securities, net of tax, in accumulated other comprehensive income or loss in the stockholders' equity section of our balance sheets. Gross unrealized gains and losses on our available-for-sale debt securities at April 30, 2018 and July 31, 2017 were not significant. We periodically review our investment portfolios to determine if any investment is other-than-temporarily impaired due to changes in credit risk or other potential valuation concerns. We believe that the investments we held at April 30, 2018 were not other-than-temporarily impaired. Unrealized losses on available-for-sale debt securities at April 30, 2018 were not significant and were due to changes in interest rates, including market credit spreads, and not due to increased credit risks associated with specific securities. We do not intend to sell these investments. In addition, it is more likely than not that we will not be required to sell them before recovery at par, which may be at maturity.

Table of Contents

The following table summarizes our available-for-sale debt securities classified by the stated maturity date of the security at the dates indicated.

<i>(In millions)</i>	April 30, 2018		July 31, 2017	
	Amortized Cost	Value	Amortized Cost	Value
Due within one year	\$243	\$242	\$209	\$209
Due within two years	121	120	164	164
Due within three years	68	67	59	60
Due after three years	33	33	30	30
Total available-for-sale debt securities	\$465	\$462	\$462	\$463

4. Business Combinations

During the three months ended January 31, 2018 we acquired all of the outstanding equity interests of TSheets.com LLC, Exactor, Inc., and Applatix, Inc. for total combined cash and other consideration of approximately \$412 million. The \$412 million included approximately \$27 million for the fair value of equity awards and other cash consideration that is being charged to expense over the future service period of up to three years. These three businesses became part of our Small Business & Self-Employed segment and will provide additional features to our QuickBooks offerings such as automated time tracking and scheduling and the calculation and filing of sales and use taxes. We have included their results of operations in our consolidated results of operations from the dates of acquisition. Their results of operations for all periods presented and periods prior to the dates of acquisition were not material when compared with our consolidated results of operations.

Under the acquisition method of accounting we allocated the fair value of the total combined purchase consideration of \$385 million to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values on the dates of acquisition. The fair values assigned to the identifiable intangible assets acquired were based on estimates and assumptions determined by management. We recorded the excess of consideration over the aggregate fair values as goodwill which is primarily attributable to expected synergies from future growth. Using information available at the time the acquisitions closed, we allocated approximately \$5 million of the total combined purchase consideration to net tangible assets and approximately \$62 million to identified intangible assets which are being amortized over a weighted average life of four years. The identified intangible assets include \$38 million for purchased technology, \$17 million for customer lists, and \$7 million for covenants not to compete. We recorded the excess combined purchase consideration of approximately \$318 million as goodwill, none of which is deductible for income tax purposes.

5. Current Liabilities

Short-Term Debt

On February 1, 2016 we entered into a master credit agreement with certain institutional lenders for a five-year credit facility in an aggregate principal amount of \$1.5 billion. The master credit agreement includes a \$500 million unsecured term loan and a \$1 billion unsecured revolving credit facility. At April 30, 2018, \$450 million was outstanding under the term loan, of which \$50 million was classified as short-term debt. See Note 6, "Long-Term Obligations and Commitments – Long-Term Debt," for more information regarding the term loan.

Unsecured Revolving Credit Facility

The master credit agreement we entered into on February 1, 2016 includes a \$1 billion unsecured revolving credit facility that will expire on February 1, 2021. Under the master credit agreement we may, subject to certain customary conditions, on one or more occasions increase commitments under the revolving credit facility in an amount not to exceed \$250 million in the aggregate and may extend the maturity date up to two times. Advances under the revolving credit facility accrue interest at rates that are equal to, at our election, either Bank of America'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%. Actual margins under either election will be based on our senior debt credit ratings. The master credit agreement includes customary affirmative and negative covenants, including financial covenants that require us to maintain a ratio of total debt to annual earnings before interest, taxes, depreciation and amortization (EBITDA) of not greater than 3.25 to 1.00 as of any date and a ratio of annual EBITDA to annual interest expense of not less than 3.00 to 1.00 as of the last day of each fiscal quarter. We

Edgar Filing: INTUIT INC - Form 10-Q

remained in compliance with these covenants at all times during the quarter ended April 30, 2018. During the nine months ended April 30, 2018 we borrowed \$800 million under this revolving credit facility and at April 30, 2018 no amounts were outstanding. We

[Intuit Q3 Fiscal 2018 Form 10-Q](#) 15

Table of Contents

paid \$5 million for interest on the revolving credit facility during the nine months ended April 30, 2018 and \$1 million during the nine months ended April 30, 2017.

Other Current Liabilities

Other current liabilities were as follows at the dates indicated:

<i>(In millions)</i>	April 30, 2018	July 31, 2017
Executive deferred compensation plan liabilities	\$ 93	\$ 83
Reserve for promotional discounts and rebates	24	19
Reserve for product returns	36	7
Current portion of license fee payable	10	10
Current portion of deferred rent	5	6
Current portion of dividend payable	7	9
Other	52	39
Total other current liabilities	\$ 227	\$ 173

The balances of several of our other current liabilities, particularly our reserves for product returns and promotional discounts and rebates, are affected by the seasonality of our business. See Note 1, "Description of Business and Summary of Significant Accounting Policies – Seasonality," for more information.

6. Long-Term Obligations and Commitments**Long-Term Debt**

On February 1, 2016 we entered into a master credit agreement with certain institutional lenders for a five-year credit facility in an aggregate principal amount of \$1.5 billion, which includes a \$500 million unsecured term loan. Under the master credit agreement we may, subject to certain customary conditions, on one or more occasions increase commitments under the term loan in an amount not to exceed \$500 million in the aggregate. The term loan accrues interest at rates that are equal to, at our election, either Bank of America's alternate base rate plus a margin that ranges from 0.125% to 0.875% or LIBOR plus a margin that ranges from 1.125% to 1.875%. Actual margins under either election will be based on our senior debt credit ratings. The master credit agreement includes customary affirmative and negative covenants. See Note 5, "Current Liabilities – Unsecured Revolving Credit Facility," for more information. The term loan is subject to quarterly principal payments, which began in July 2017, of 2.5% of the original loan amount, with the balance payable on February 1, 2021. At April 30, 2018, \$450 million was outstanding under the term loan, of which \$50 million was classified as short-term debt. Interest on the term loan is payable monthly. We paid \$9 million for interest on the term loan during the nine months ended April 30, 2018 and \$7 million during the nine months ended April 30, 2017.

Other Long-Term Obligations

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

<i>(In millions)</i>	April 30, 2018	July 31, 2017
Total deferred rent	\$ 47	\$ 49
Long-term income tax liabilities	75	53
Total license fee payable	19	18
Total dividend payable	12	13
Long-term deferred income tax liabilities	7	7
Other	11	16
Total long-term obligations	171	156
Less current portion (included in other current liabilities)	(24)	(26)
Long-term obligations due after one year	\$ 147	\$ 130

Table of Contents*Operating Lease Commitments and Unconditional Purchase Obligations*

We describe our operating lease commitments and purchase obligations in Note 8 to the financial statements in Item 8 of our Annual Report on Form 10-K for the fiscal year ended July 31, 2017. On September 13, 2017 we signed an agreement that includes a minimum purchase commitment of \$450 million through August 31, 2022. There were no other significant changes in our operating lease commitments or purchase obligations during the nine months ended April 30, 2018.

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.

Tax Cuts and Jobs Act

The Tax Cuts and Jobs Act (Tax Act) was enacted on December 22, 2017 and reduces the U.S. statutory federal corporate tax rate from 35% to 21%. The effective date of the tax rate change was January 1, 2018. With our fiscal year ending July 31, the change will result in a blended lower U.S. statutory federal rate of 26.9% for fiscal year 2018. As a result, we adjusted our annual effective tax rate for the three and nine months ended April 30, 2018, as well as adjusted our U.S. net deferred tax asset balance at the lower rates.

As of April 30, 2018, we have not completed our accounting for the tax effects of enactment of the Tax Act; however, we have made a reasonable estimate of the effects on our existing deferred tax balances. We recorded a provisional charge of \$39 million in the second quarter of fiscal 2018 related to the re-measurement of certain deferred tax balances. During the three months ended April 30, 2018, we recorded an additional provisional charge of \$5 million related to the re-measurement of deferred tax balances, resulting in a total tax expense of \$44 million for the nine months ended April 30, 2018.

Additionally, we have made provisional estimates of the impact of the Tax Act's changes to our fiscal 2018 annual effective tax rate for items such as meals and entertainment and executive deferred compensation deductions. We do not expect to have any material tax impact from the foreign tax provisions of the Tax Act.

On December 22, 2017 the SEC issued Staff Accounting Bulletin No. 118 (SAB 118), which provides guidance for companies that are not able to complete their accounting for the income tax effects of the Act in the period of enactment. The guidance allows us to record provisional amounts to the extent a reasonable estimate can be made and provides us with up to one year from enactment date to finalize accounting for the impacts of the Tax Act. Since the Tax Act was passed in Intuit's second quarter, the deferred tax re-measurements and other items are considered provisional due to the forthcoming guidance and ongoing analysis of the final year-end data and tax positions. The analysis is expected to be completed within the 12-month measurement period in accordance with SAB 118.

Current quarter and year to date income tax and effective tax rates

For the three and nine months ended April 30, 2018, we recognized excess tax benefits on share-based compensation of \$8 million and \$41 million in our provision for income taxes. For the three and nine months ended April 30, 2017, we recognized excess tax benefits on share-based compensation of \$12 million and \$38 million in our provision for income taxes.

Our effective tax rate for the three and nine months ended April 30, 2018 was approximately 26% and did not differ significantly from the federal statutory rate of 26.9%.

Our effective tax rates for the three and nine months ended April 30, 2017 were approximately 33% and 31%. Excluding discrete tax items primarily related to share-based compensation tax benefits, our effective tax rate for both periods was 34% and did not differ significantly from the federal statutory rate of 35%. The tax benefit we received from the domestic production activities deduction and the federal research and experimentation credit were partially offset by the tax expense related to state income taxes, nondeductible share-based compensation, and the effects of losses in certain jurisdictions where we do not recognize a tax benefit in both periods.

Unrecognized Tax Benefits and Other Considerations

The total amount of our unrecognized tax benefits at July 31, 2017 was \$61 million. Net of related deferred tax assets, unrecognized tax benefits were \$38 million at that date. If we were to recognize these net benefits, our income tax expense would reflect a favorable net impact of \$38 million. There were no material changes to these amounts during the nine months ended April 30, 2018. The impacts of the Tax Act are not material for the unrecognized tax benefits. 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.

Table of Contents**8. Stockholders' Equity***Stock Repurchase Programs and Treasury Shares*

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 1.9 million shares for \$272 million under these programs during the nine months ended April 30, 2018. At April 30, 2018, we had authorization from our Board of Directors to expend up to an additional \$1.2 billion for stock repurchases. Future stock repurchases under the current programs are at the discretion of management, and authorization of future stock repurchase programs is subject to the final determination of our Board of Directors.

Our treasury shares are repurchased at the market price on the trade date; accordingly, all amounts paid to reacquire these shares have been recorded as treasury stock on our balance sheets. 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.

In the past we have satisfied option exercises and restricted stock unit vesting under our employee equity incentive plans by reissuing treasury shares, and we may do so again in the future. During the second quarter of fiscal 2014 we began issuing new shares of common stock to satisfy option exercises and RSU vesting under our 2005 Equity Incentive Plan. We have not yet determined the ultimate disposition of the shares that we have repurchased in the past, and consequently we continue to hold them as treasury shares.

Dividends on Common Stock

During the nine months ended April 30, 2018 we declared quarterly cash dividends that totaled \$1.17 per share of outstanding common stock or \$304 million. In May 2018 our Board of Directors declared a quarterly cash dividend of \$0.39 per share of outstanding common stock payable on July 18, 2018 to stockholders of record at the close of business on July 10, 2018. 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.

Share-Based Compensation Expense

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

	Three Months Ended		Nine Months Ended	
	April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017
<i>(In millions)</i>				
Cost of revenue	\$ 14	\$ 2	\$ 30	\$ 6
Selling and marketing	25	19	75	66
Research and development	30	24	99	89
General and administrative	23	26	79	80
Total share-based compensation expense	\$ 92	\$ 71	\$ 283	\$ 241

We capitalized \$2 million in share-based compensation related to internal use software projects during the nine months ended April 30, 2018 and \$6 million during the nine months ended April 30, 2017.

Table of Contents**Share-Based Awards Available for Grant**

A summary of share-based awards available for grant under our 2005 Equity Incentive Plan for the nine months ended April 30, 2018 was as follows:

<i>(Shares in thousands)</i>	Shares Available for Grant
Balance at July 31, 2017	25,164
Options granted	—
Restricted stock units granted (1)	(1,580)
Share-based awards canceled/forfeited/expired (1)(2)	2,966
Balance at April 30, 2018	26,550

RSUs granted from the pool of shares available for grant under our 2005 Equity Incentive Plan reduce the pool by 2.3 shares (1) 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 RSUs canceled, expired or forfeited under our 2005 Equity Incentive Plan are returned to the pool of shares available for grant. Shares withheld for income taxes upon vesting of RSUs that were granted on or after July 21, 2016 are also (2) returned to the pool of shares available for grant. Stock options and RSUs canceled, expired or forfeited under older expired plans are not returned to the pool of shares available for grant.

Stock Option Activity and Related Share-Based Compensation Expense

A summary of stock option activity for the nine months ended April 30, 2018 was as follows:

<i>(Shares in thousands)</i>	Options Outstanding	Weighted Average Exercise Price Per Share
Balance at July 31, 2017	7,488	\$ 104.50
Granted	—	—
Exercised	(1,717)	86.16
Canceled or expired	(320)	120.28
Balance at April 30, 2018	5,451	\$ 109.35

Exercisable at April 30, 2018 2,825 \$ 93.12

At April 30, 2018, there was approximately \$50 million of unrecognized compensation cost related to non-vested stock options with a weighted average vesting period of 1.8 years. We will adjust unrecognized compensation cost for actual forfeitures as they occur.

Restricted Stock Unit Activity and Related Share-Based Compensation Expense

A summary of restricted stock unit (RSU) activity for the nine months ended April 30, 2018 was as follows:

<i>(Shares in thousands)</i>	Restricted Stock Units	Weighted Average Grant Date Fair Value
Nonvested at July 31, 2017	8,636	\$ 98.76
Granted	687	158.18
Unregistered restricted stock granted in connection with acquisitions	75	163.00
Vested	(1,074)	79.40
Forfeited	(1,033)	86.95
Nonvested at April 30, 2018	7,291	\$ 109.55

At April 30, 2018, there was approximately \$509 million of unrecognized compensation cost related to non-vested RSUs with a weighted average vesting period of 2.0 years. We will adjust unrecognized compensation cost for actual forfeitures as they occur.

Table of Contents**9. Litigation**

In fiscal 2015 Intuit was contacted by certain state and federal regulatory authorities in connection with inquiries regarding an increase during the 2015 tax season in attempts by criminals using stolen identity information to file fraudulent tax returns and claim refunds. Intuit provided information in response to those inquiries. A consolidated putative class action lawsuit was filed by individuals who claim to have suffered damages in connection with the 2015 events. We believe that the allegations in that lawsuit are without merit, and we intend to vigorously defend against them.

Intuit is subject to certain routine legal proceedings, including class action lawsuits like the suit described above, as well as demands, claims, government inquiries 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 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

In August 2017, we aligned our segment reporting for fiscal 2018 with our core customers and business partners. The Consumer Ecosystem offering moved from the Small Business segment into the Consumer Tax segment. The company also renamed the Small Business, Consumer Tax, and ProConnect segments as the Small Business & Self-Employed, Consumer, and Strategic Partner segments. The Strategic Partner segment will continue to manage our professional tax offerings while now focusing on partners instrumental to the success of Intuit's ecosystem.

We have defined our three reportable segments, described below, based on factors such as how we manage our operations and how our chief operating decision maker views results. We define the chief operating decision maker as our Chief Executive Officer and our Chief Financial Officer. Our chief operating decision maker organizes and manages our business primarily on the basis of product and service offerings.

Small Business & Self-Employed: This segment targets small businesses, the self-employed, and the accounting professionals who serve and advise them around the globe. Our offerings include QuickBooks financial and business management online services and desktop software, payroll solutions, and payment processing solutions.

Consumer: This segment targets consumers and includes TurboTax income tax preparation products and services sold in the U.S. and Canada.

Strategic Partner: This segment targets professional accountants in the U.S. and Canada, who are essential to both small business success and tax preparation and filing. Our professional tax offerings include Lacerte, ProSeries, ProFile, and ProConnect Tax Online.

All of our segments 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, general and administrative expenses and share-based compensation expenses, which 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, 2017 and in Note 1, "*Description of Business and Summary of Significant Accounting Policies – Significant Accounting Policies*" in this Quarterly Report on Form 10-Q. 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.

Table of Contents

The following table shows our financial results by reportable segment for the periods indicated. Segment results for fiscal 2017 have been reclassified to conform to the fiscal 2018 segment presentation, as described earlier in this footnote.

	Three Months Ended		Nine Months Ended	
	April 30, 2018	April 30, 2017	April 30, 2018	April 30, 2017
<i>(In millions)</i>				
Net revenue:				
Small Business & Self-Employed	\$ 759	\$ 655	\$ 2,189	\$ 1,866
Consumer	2,035	1,770	2,447	2,142
Strategic Partner	131	116	340	327
Total net revenue	\$ 2,925	\$ 2,541	\$ 4,976	\$ 4,335
Operating income:				
Small Business & Self-Employed	\$ 292	\$ 276	\$ 874	\$ 756
Consumer	1,636	1,429	1,650	1,446
Strategic Partner	89	73	210	193
Total segment operating income	2,017	1,778	2,734	2,395
Unallocated corporate items:				
Share-based compensation expense	(92)	(71)	(283)	(241)
Other common expenses	(303)	(259)	(859)	(738)
Amortization of acquired technology	(5)	(3)	(10)	(9)
Amortization of other acquired intangible assets	(2)	(1)	(4)	(2)
Total unallocated corporate items	(402)	(334)	(1,156)	(990)
Total operating income	\$ 1,615	\$ 1,444	\$ 1,578	\$ 1,405

Table of Contents

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

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide readers of our consolidated financial statements with the perspectives of management. This should allow the readers of this report to obtain a comprehensive understanding of our businesses, strategies, current trends, and future prospects. Our MD&A includes the following sections:

- **Executive Overview:** High level discussion of our operating results and some of the trends that affect our business.
- **Critical Accounting Policies and Estimates:** Significant changes since our most recent Annual Report on Form 10-K that we believe are important to understanding the assumptions and judgments underlying our financial statements.
- **Results of Operations:** A more detailed discussion of our revenue and expenses.
- **Liquidity and Capital Resources:** Discussion of key aspects of our statements of cash flows, changes in our balance sheets, and our financial commitments.

You should note that this MD&A contains forward-looking statements that involve risks and uncertainties. Please see the section entitled "Forward-Looking Statements" immediately preceding Part 1 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 Quarterly Report and our Annual Report on Form 10-K for the fiscal year ended July 31, 2017.

This overview provides a high-level discussion of our operating results and some of the trends that affect our business. We believe that an understanding of these trends is important in order to understand our financial results as well as our future prospects. 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.

Intuit helps consumers, small businesses, and the self-employed prosper by delivering financial management and compliance products and services. We also provide specialized tax products to accounting professionals, who are key partners that help us reach small business customers. We organize our businesses into three reportable segments – Small Business & Self-Employed, Consumer, and Strategic Partner.

Small Business & Self-Employed: This segment targets small businesses, the self-employed, and the accounting professionals who serve and advise them around the globe. Our offerings include QuickBooks financial and business management online services and desktop software, payroll solutions, and payment processing solutions.

Consumer: This segment targets consumers and includes TurboTax income tax preparation products and services sold in the U.S. and Canada.

Strategic Partner: This segment targets professional accountants in the U.S. and Canada, who are essential to both small business success and tax preparation and filing. Our professional tax offerings include Lacerte, ProSeries, ProFile, and ProConnect Tax Online.

Table of Contents

As emerging technology and market trends change the way people live and work, we change too. For more than three decades, we have continuously re-invented ourselves from a desktop business to the web and mobile. Our assessment of external trends – the emergence and influence of the digital generation, the evolution of social networks as a means to accomplish important financial tasks and growth in the self-employed workforce – reveals significant opportunities to drive future growth. The result is a global market that is shifting from traditional services that are manual in nature to more automated, interconnected services that work on platforms and increasingly rely on artificial intelligence and machine learning.

Our strategy is built on the strength of our One Intuit Ecosystem, a connected, one-stop destination for customers to make their financial lives easier. Our evolving strategy focuses on three elements:

•Personalized experiences: With deep expertise and customer-provided data, we can create increasingly valuable personalized experiences that delight and serve our customers. For example, our TurboTax solutions use machine learning to create a customized interview, asking questions uniquely tailored to each individual situation. By delivering an amazing end-to-end experience, we offer customers the value they expect from our offerings as quickly and easily as possible.

•Trusted open platform: With a secure, open platform, we allow real-time access to – and use of – high-quality data to internal and external developers, speeding our ability to embrace new technology, such as artificial intelligence and machine learning. One example of this is our QuickBooks open platform, where small businesses and accountants can install apps created by third-party developers to enhance the functionality and personalization of the QuickBooks experience.

•Indispensable connections: Within our One Intuit Ecosystem we strive to build connections between customers, partners, and products on our platform. We also focus on building relationships with strategic partners critical to providing key customer benefits. These include accountants, developers, financial institutions, schools, governments, and other platform companies.

Industry Trends

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. Competitive interest and expertise in many of the markets we serve have grown markedly 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.

Seasonality

Our Consumer offerings have significant seasonal patterns. As a result, during each of the last three fiscal years the total consolidated revenue for our third quarter ended April 30 has represented nearly half of our annual total consolidated revenue for those years. We expect the seasonality of our Consumer business to continue to have a significant impact on our quarterly financial results in the future.

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

[Intuit Q3 Fiscal 2018 Form 10-Q](#) 23

Table of Contents

information technology infrastructure and in our privacy and security capabilities, and we expect to continue to do so in the future.

Beginning in early calendar year 2015, state taxing authorities, the IRS, and the tax preparation industry experienced an increase in attempts by criminals using stolen identity information to file fraudulent tax returns and claim refunds at the federal level and expanding into the state level. We implemented additional security measures in our products and began working with state governments to share information regarding suspicious filings while continuing to share such information with the federal government. We continue to invest in security and to work with the broader industry and government to protect our customers against this type of fraud.

For a complete discussion of the most significant risks and uncertainties affecting our business, please see "Forward-Looking Statements" immediately preceding Part 1 and "Risk Factors" in Item 1A of Part II of this Quarterly Report.

The most important financial indicators that we use to assess our business are revenue growth for the company as a whole, for each reportable segment, and for product lines within each reportable segment; operating income growth and operating income margins for the company as a whole and for each reportable segment; 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 segment results below. These non-financial drivers include, for example, customer growth and retention for all of our businesses and transaction volume for our payment processing business. Total credit and debit card transaction volume correlates strongly with the macroeconomic environment and is one of the key drivers of revenue growth in our payment processing business. Customers for our connected services offerings have generally grown faster than those for our traditional desktop software offerings, reflecting our strategic focus on connected services over the past few years. Connected services (total service and other revenue) generated \$3.8 billion or 73% of our total revenue in fiscal 2017. We expect connected services revenue as a percentage of our total revenue to continue to grow in the future.

Key highlights for the first nine months of fiscal 2018 include the following:

Revenue of

\$5.0 B

up 15% from same period of fiscal 2017

Consumer revenue of

\$2.4 B

up 14% from same period of fiscal 2017

Small Business & Self-Employed revenue of

\$2.2 B

up 17% from same period of fiscal 2017

Operating income of

\$1.6 B

up 12% from same period of fiscal 2017

Net income of

\$1.2 B

up 23% from same period of fiscal 2017

Diluted net income per share of

\$4.47

up 23% from same period of fiscal 2017

We ended the first nine months of fiscal 2018 with cash, cash equivalents and investments totaling \$1.9 billion.

Table of Contents

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, 2017 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 nine months of fiscal 2018. 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.

<i>(Dollars in millions, except per share amounts)</i>	Q3 FY18	Q3 FY17	\$ Change	% Change		YTD Q3 FY18	YTD Q3 FY17	\$ Change	% Change
Total net revenue	\$ 2,925	\$ 2,541	\$ 384	15 %		\$ 4,976	\$ 4,335	\$ 641	15 %
Operating income	1,615	1,444	171	12 %		1,578	1,405	173	12 %
Net income	1,200	964	236	24 %		1,162	947	215	23 %
Diluted net income per share	\$ 4.59	\$ 3.70	\$ 0.89	24 %		\$ 4.47	\$ 3.63	\$ 0.84	23 %

Current Fiscal Quarter

Total net revenue for the third quarter of fiscal 2018 increased \$384 million or 15% compared with the same quarter of fiscal 2017. Our Small Business & Self-Employed segment revenue increased due to growth in the Online Ecosystem and our Consumer segment revenue increased due to a higher average revenue per customer, growth in TurboTax federal units, and a shift in mix to our higher end product offerings. See "Segment Results" later in this Item 2 for more information about the results for all of our reportable segments.

Operating income increased 12% in the third quarter of fiscal 2018 compared with the same quarter of fiscal 2017. The increase was due to the higher revenue described above partially offset by higher costs for advertising and other marketing programs, staffing, outside services, and share-based compensation. See "Operating Expenses" later in this Item 2 for more information.

Net income increased 24% for the third quarter of fiscal 2018 compared with the same quarter of fiscal 2017 due to the increase in operating income described above and a lower effective tax rate in the fiscal 2018 period, as a result of the Tax Cuts and Jobs Act (Tax Act). Diluted net income per share increased 24% to \$4.59, in line with the increase in net income.

Fiscal Year to Date

Total net revenue for the first nine months of fiscal 2018 increased \$641 million or 15% compared with the same period of fiscal 2017. Our Small Business & Self-Employed segment revenue increased due to growth in the Online Ecosystem and our Consumer segment revenue increased due to a higher average revenue per customer, growth in TurboTax federal units, and a shift in mix to our higher end product offerings. See "Segment Results" later in this Item 2 for more information about the results for all of our reportable segments.

Operating income for the first nine months of fiscal 2018 increased 12% compared with the same period of fiscal 2017. The increase was due to the higher revenue described above partially offset by higher costs for staffing, advertising and other marketing programs, outside services, and share-based compensation. See "Operating Expenses" later in this Item 2 for more information.

Net income for the first nine months of fiscal 2018 increased 23% due to the increase in operating income described above and a lower effective tax rate in fiscal 2018, as a result of the Tax Act. The net income for the first nine months of fiscal 2018 includes a \$44 million tax charge primarily related to the re-measurement of our net deferred tax asset balance as a result of the enactment of the Tax Act. This charge was partially offset by tax benefits related to share-based compensation expense. See "Non-Operating Income and Expenses - Income Taxes" later in this Item 2 for more information. Diluted net income per share increased 23% to \$4.47, in line with the increase in net income.

Table of Contents

The information below is organized in accordance with our three reportable segments. See “*Executive Overview – About Intuit*” earlier in this Item 2 and Note 10 to the financial statements in Part I, Item 1 of this Quarterly Report for more information. All of our segments 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, general and administrative expenses, and share-based compensation expenses, which are not allocated to specific segments. These unallocated costs totaled \$1.1 billion in the first nine months of fiscal 2018 and \$979 million in the first nine months of fiscal 2017. Unallocated costs increased in the fiscal 2018 period due to increased corporate product development and selling and marketing expenses in support of the growth of our businesses and higher 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 Quarterly Report for reconciliations of total segment operating income or loss to consolidated operating income or loss for each fiscal period presented.

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

Table of Contents

Product revenue is derived primarily from QuickBooks Desktop software products, including Desktop Pro, Desktop for Mac, Desktop Premier, and Enterprise; QuickBooks Basic Payroll and QuickBooks Enhanced Payroll; QuickBooks Point of Sale solutions; ProAdvisor Program memberships for the accounting professionals who serve small businesses; and financial supplies.

Service and other revenue is derived primarily from our QuickBooks Online and QuickBooks Self-Employed financial and business management offerings; QuickBooks Desktop Pro Plus, QuickBooks Desktop Premier Plus, and QuickBooks Enterprise with Hosting, our subscription offerings; QuickBooks Enterprise term licenses and QuickBooks technical support plans; small business payroll services, including QuickBooks Online Payroll, Intuit Online Payroll, QuickBooks Assisted Payroll, and Intuit Full Service Payroll; and payment processing services for small businesses.

<i>(Dollars in millions)</i>	Q3 FY18	Q3 FY17	% Change	YTD Q3 FY18	YTD Q3 FY17	% Change
Product revenue	\$211	\$192	10 %	\$640	\$581	10 %
Service and other revenue	548	463	18 %	1,549	1,285	21 %
Total segment revenue	\$759	\$655	16 %	\$2,189	\$1,866	17 %
% of total revenue	26 %	26 %		44 %	43 %	
Segment operating income	\$292	\$276	6 %	\$874	\$756	16 %
% of related revenue	39 %	42 %		40 %	41 %	

Total Small Business & Self-Employed segment revenue increased \$104 million or 16% in the third quarter of fiscal 2018 and \$323 million or 17% in the first nine months of fiscal 2018 compared with the same periods of fiscal 2017. The increase in both periods was due to growth in Online Ecosystem revenue.

Online Ecosystem

Online Ecosystem revenue increased 41% in the third quarter of fiscal 2018 and 39% in the first nine months of fiscal 2018. The revenue growth in both periods was driven by customer acquisition. At April 30, 2018 QuickBooks Online subscribers were 3.2 million, up 45% compared with the same point in time a year ago. Online Services revenue increased 27% in the third quarter of fiscal 2018 and increased 21% in the first nine months of fiscal 2018 due to customer growth in online payroll and payments.

Desktop Ecosystem

Desktop Ecosystem revenue increased 3% in the third quarter of fiscal 2018 and 7% in the first nine months of fiscal 2018. The increase in revenue in both periods was driven by growth in QuickBooks Enterprise subscribers and average revenue per customer. QuickBooks Desktop units declined 8% and 18% in those periods. Small Business & Self-Employed segment operating income increased 6% in the third quarter of fiscal 2018 and 16% in the first nine months of fiscal 2018 compared with the same periods of fiscal 2017. The higher revenue in both periods described above was partially offset by higher expenses for staffing, advertising, and other marketing programs.

Table of Contents

Product revenue is derived primarily from TurboTax desktop tax return preparation software. Service and other revenue is derived primarily from TurboTax Online tax return preparation services and electronic tax filing services.

<i>(Dollars in millions)</i>	Q3 FY18	Q3 FY17	% Change	YTD Q3 FY18	YTD Q3 FY17	% Change
Product revenue	\$203	\$192	6 %	\$227	\$215	6 %
Service and other revenue	1,832	1,578	16 %	2,220	1,927	15 %
Total segment revenue	\$2,035	\$1,770	15 %	\$2,447	\$2,142	14 %
% of total revenue	70	% 69	%	49	% 49	%
Segment operating income	\$1,636	\$1,429	14 %	\$1,650	\$1,446	14 %
% of related revenue	80	% 81	%	67	% 67	%

Total Consumer segment revenue increased \$305 million or 14% in the first nine months of fiscal 2018 compared with the same period of fiscal 2017 due to a higher average revenue per customer, a 4% growth in TurboTax federal units, and a shift in mix to our higher end product offerings.

Segment operating income increased 14% in the first nine months of fiscal 2018 due to higher revenue which was partially offset by higher expenses including staffing, advertising, and other marketing programs.

Table of Contents

Product revenue is derived primarily from Lacerte, ProSeries, and ProFile desktop tax preparation software products.

Service and other revenue is derived primarily from ProConnect Tax Online tax return preparation, bank products, and related services that complement the tax return preparation process.

<i>(Dollars in millions)</i>	Q3 FY18	Q3 FY17	% Change	YTD Q3 FY18	YTD Q3 FY17	% Change
Product revenue	\$91	\$83	9 %	\$273	\$267	2 %
Service and other revenue	40	33	23 %	67	60	13 %
Total segment revenue	\$131	\$116	13 %	\$340	\$327	4 %
% of total revenue	4 %	5 %		7 %	8 %	

Segment operating income \$89 \$73 21 % \$210 \$193 8 %

% of related revenue 67 % 63 % 61 % 59 %

The Strategic Partner segment targets professional accountants in the U.S. and Canada, who are essential to both small business success and tax preparation and filing.

Total Strategic Partner segment revenue increased \$13 million or 4% in the first nine months of fiscal 2018 compared with the same period of fiscal 2017. Segment operating income increased 8% in the first nine months of fiscal 2018 primarily due to the higher revenue and relatively stable spending.

Table of Contents

(Dollars in millions)

	Q3 FY18	% of Related Revenue	Q3 FY17	% of Related Revenue	YTD Q3 FY18	% of Related Revenue	YTD Q3 FY17	% of Related Revenue
Cost of product revenue	\$27	5 %	\$29	6 %	\$87	8 %	\$95	9 %
Cost of service and other revenue	272	11 %	205	10 %	649	17 %	522	16 %
Amortization of acquired technology	5	n/a	3	n/a	10	n/a	9	n/a
Total cost of revenue	\$304	10 %	\$237	9 %	\$746	15 %	\$626	14 %

Cost of product revenue as a percentage of product revenue was consistent in the third quarter and first nine months of fiscal 2018 compared with the same periods of fiscal 2017. We expense costs of product revenue as they are incurred for delivered software and we do not defer any of these costs when product revenue is deferred. Cost of service and other revenue as a percentage of service and other revenue was consistent in the third quarter and first nine months of fiscal 2018 compared with the same periods of fiscal 2017.

(Dollars in millions)

	Q3 FY18	% of Total Net Revenue	Q3 FY17	% of Total Net Revenue	YTD Q3 FY18	% of Total Net Revenue	YTD Q3 FY17	% of Total Net Revenue
Selling and marketing	\$549	19 %	\$467	18 %	\$1,326	27 %	\$1,155	27 %
Research and development	296	10 %	246	10 %	875	17 %	735	17 %
General and administrative	159	5 %	146	6 %	447	9 %	412	9 %
Amortization of other acquired intangible assets	2	— %	1	— %	4	— %	2	— %
Total operating expenses	\$1,006	34 %	\$860	34 %	\$2,652	53 %	\$2,304	53 %

Current Fiscal Quarter

Total operating expenses as a percentage of total net revenue was flat in the third quarter of fiscal 2018 compared to the same quarter of fiscal 2017. Total net revenue for the third quarter of fiscal 2018 increased \$384 million or 15% while total operating expenses for the quarter increased \$146 million or 17%. Operating expenses increased about \$56 million for higher advertising and other marketing programs, \$53 million for staffing expenses due to higher headcount, and \$12 million for outside services.

Fiscal Year to Date

Total operating expenses as a percentage of total net revenue was flat in the first nine months of fiscal 2018 compared to the same period of fiscal 2017. Total net revenue for the first nine months of fiscal 2018 increased \$641 million or 15% while total operating expenses for that period increased \$348 million or 15%. Operating expenses increased about \$130 million for higher staffing expenses due to higher headcount, \$108 million for advertising and other marketing programs, and \$44 million for outside services.

Interest Expense

Interest expense of \$16 million for the first nine months of fiscal 2018 consisted primarily of interest on our unsecured term loan and unsecured revolving credit facility. Interest expense of \$28 million for the first nine months of fiscal 2017 consisted primarily of interest on our senior notes, unsecured term loan, and unsecured revolving credit facility.

Table of Contents*Interest and Other Income, Net*

<i>(In millions)</i>	Q3 FY18	Q3 FY17	YTD Q3 FY18	YTD Q3 FY17
Interest income	\$ 4	\$ 2	\$ 8	\$ 4
Net gain on executive deferred compensation plan assets ⁽¹⁾	(3)	3	4	6
Other	6	(2)	3	(10)
Total interest and other income, net	\$ 7	\$ 3	\$ 15	\$ —

(1) 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 for each period are approximately equal to the total amounts recorded in interest and other income in those periods.

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.

Tax Cuts and Job Act

The Tax Cuts and Jobs Act (Tax Act) was enacted on December 22, 2017 and reduces the U.S. statutory federal corporate tax rate from 35% to 21%. The effective date of the tax rate change was January 1, 2018. With our fiscal year ending July 31, the change will result in a blended lower U.S. statutory federal rate of 26.9% for fiscal year 2018. As a result, we adjusted our annual effective tax rate for the three and nine months ended April 30, 2018, as well as adjusted our U.S. net deferred tax asset balance at the lower rates.

As of April 30, 2018, we have not completed our accounting for the tax effects of enactment of the Tax Act; however, we have made a reasonable estimate of the effects on our existing deferred tax balances. We recorded a provisional charge of \$39 million in the second quarter of fiscal 2018 related to the re-measurement of certain deferred tax balances. During the three months ended April 30, 2018, we recorded an additional provisional charge of \$5 million related to the re-measurement of deferred tax balances, resulting in a total tax expense of \$44 million for the nine months ended April 30, 2018.

Additionally, we have made provisional estimates of the impact of the Tax Act's changes to our fiscal 2018 annual effective tax rate for items such as meals and entertainment and executive deferred compensation deductions. We do not expect to have any material tax impact from the foreign tax provisions of the Tax Act.

On December 22, 2017 the SEC issued Staff Accounting Bulletin No. 118 (SAB 118), which provides guidance for companies that are not able to complete their accounting for the income tax effects of the Act in the period of enactment. The guidance allows us to record provisional amounts to the extent a reasonable estimate can be made and provides us with up to one year from enactment date to finalize accounting for the impacts of the Tax Act. Since the Tax Act was passed in Intuit's second quarter, the deferred tax re-measurements and other items are considered provisional due to the forthcoming guidance and ongoing analysis of the final year-end data and tax positions. The analysis is expected to be completed within the 12-month measurement period in accordance with SAB 118.

Current quarter and year to date income tax and effective tax rates

For the three and nine months ended April 30, 2018, we recognized excess tax benefits on share-based compensation of \$8 million and \$41 million in our provision for income taxes. For the three and nine months ended April 30, 2017, we recognized excess tax benefits on share-based compensation of \$12 million and \$38 million in our provision for income taxes.

Our effective tax rate for the three and nine months ended April 30, 2018 was approximately 26% and did not differ significantly from the federal statutory rate of 26.9%. See Note 7 to the financial statements in Part I, Item I of this Quarterly Report for more information.

Our effective tax rates for the three and nine months ended April 30, 2017 were approximately 33% and 31%. Excluding discrete tax items primarily related to share-based compensation tax benefits, our effective tax rate for both periods was 34% and did not differ significantly from the federal statutory rate of 35%. See Note 7 to the financial statements in Part I, Item I of this Quarterly Report for more information.

Table of Contents

At April 30, 2018, our cash, cash equivalents and investments totaled \$1.9 billion, an increase of \$1.2 billion from July 31, 2017 due to the factors discussed under “*Statements of Cash Flows*” below. Our primary sources of liquidity have been cash from operations, which entails the collection of accounts receivable for products and services, and borrowings under our credit facility. Our primary uses of cash have been for research and development programs, selling and marketing activities, capital projects, acquisitions of businesses, debt service costs and debt repayment, repurchases of our common stock under our stock repurchase programs, 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:

<i>(Dollars in millions)</i>	April 30,	July 31,	\$	%
	2018	2017	Change	Change
Cash, cash equivalents, and investments	\$ 1,936	\$ 777	\$ 1,159	149 %
Long-term investments	28	31	(3)	(10)%
Short-term debt	50	50	—	— %
Long-term debt	400	438	(38)	(9)%
Working capital (deficit)	142	(529)	671	(127)%
Ratio of current assets to current liabilities	1.1 : 1	0.7 : 1		

We have historically generated significant cash from operations and we expect to continue to do so in the future. Our cash, cash equivalents, and investments totaled \$1.9 billion at April 30, 2018. None of those funds were restricted and approximately 87% of those funds were located in the U.S. Our unsecured revolving credit facility is available to us for general corporate purposes, including future acquisitions and stock repurchases. At April 30, 2018, no amounts were outstanding under the revolving credit facility. We expect to pay approximately \$320 million in income taxes during the fourth quarter of fiscal 2018.

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 types 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.

The following table summarizes selected items from our statements of cash flows for the first nine months of fiscal 2018 and fiscal 2017. See the financial statements in Part I, Item 1 of this Quarterly Report for complete statements of cash flows for those periods.

<i>(Dollars in millions)</i>	Nine Months Ended		
	April 30,	April 30,	\$
	2018	2017	Change
Net cash provided by (used in):			
Operating activities	\$ 2,149	\$ 1,889	\$ 260
Investing activities	(588)	(22)	(566)
Financing activities	(469)	(1,149)	680
Effect of exchange rates on cash and cash equivalents	(7)	(6)	(1)
Net increase in cash and cash equivalents	\$ 1,085	\$ 712	\$ 373

Table of Contents

Our primary sources and uses of cash were as follows:

Nine Months Ended**April 30, 2018***Sources of cash:*

- Operations
- Borrowings under revolving credit facility
- Issuance of common stock under employee stock plans

Uses of cash:

- Repayment of debt and amounts outstanding under our revolving credit facility
- Repurchases of shares of our common stock
- Acquisitions of businesses
- Payment of cash dividends and dividend rights
- Payment of bonuses
- Capital expenditures

April 30, 2017*Sources of cash:*

- Operations
- Net sales of investments
- Borrowings under revolving credit facility
- Issuance of common stock under employee stock plans

Uses of cash:

- Repayment of debt and amounts outstanding under our revolving credit facility
- Repurchases of shares of our common stock
- Payment of cash dividends and dividend rights
- Payment of bonuses
- Capital expenditures

As described in Note 8 to the financial statements in Part I, Item 1 of this Quarterly Report, during the first nine months of fiscal 2018 we continued to repurchase shares of our common stock under repurchase programs that our Board of Directors has authorized. At April 30, 2018, we had authorization from our Board of Directors to expend up to an additional \$1.2 billion for stock repurchases. 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 nine months of fiscal 2018 we also continued to pay quarterly cash dividends on shares of our outstanding common stock. In May 2018 our Board of Directors declared a quarterly cash dividend of \$0.39 per share of outstanding common stock payable on July 18, 2018 to stockholders of record at the close of business on July 10, 2018. 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.

On February 1, 2016 we entered into a master credit agreement with certain institutional lenders for a five-year credit facility in an aggregate principal amount of \$1.5 billion. The master credit agreement includes a \$500 million unsecured term loan and a \$1 billion unsecured revolving credit facility that will expire on February 1, 2021. Under the master credit agreement we may, subject to certain customary conditions, on one or more occasions increase commitments under the revolving credit facility in an amount not to exceed \$250 million in the aggregate and may extend the maturity date up to two times. Advances under the revolving credit facility accrue interest at rates that are equal to, at our election, either Bank of America'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%. Actual margins under either election will be based on our senior debt credit ratings. At April 30, 2018, no amounts were outstanding under the revolving 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.

Under the master credit agreement, we borrowed \$500 million in the form of an unsecured term loan on February 1, 2016. We may, subject to certain customary conditions, on one or more occasions increase commitments under the term loan in an amount not to exceed \$500 million in the aggregate. The term loan accrues interest at rates that are equal to, at our election, either Bank of America's alternate base rate plus a margin that ranges from 0.125% to 0.875% or LIBOR plus a margin that ranges from 1.125% to 1.875%. Actual margins under either election will be based on our senior debt credit ratings. The term loan is subject to quarterly principal payments, which began in July 2017, of 2.5% of the original loan amount, with the balance payable on February 1, 2021. At April 30, 2018, \$450 million was outstanding under the term loan.

The master credit agreement includes customary affirmative and negative covenants, including financial covenants that require us to maintain a ratio of total debt to annual earnings before interest, taxes, depreciation and

Edgar Filing: INTUIT INC - Form 10-Q

amortization (EBITDA) of not greater than 3.25 to 1.00 as of any date and a ratio of annual EBITDA to annual interest expense of not less than 3.00 to 1.00 as of the last day of each fiscal quarter. We remained in compliance with these covenants at all times during the quarter ended April 30, 2018.

[Intuit Q3 Fiscal 2018 Form 10-Q](#) 33

Table of Contents

Our cash, cash equivalents, and investments totaled \$1.9 billion at April 30, 2018. Approximately 13% of those funds were held by our foreign subsidiaries and subject to repatriation tax considerations. These foreign funds were located primarily in Canada and India. 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 April 30, 2018, 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, 2017 in our Annual Report on Form 10-K for the fiscal year then ended. On September 13, 2017 we signed an agreement that includes a minimum purchase commitment of \$450 million through August 31, 2022. There were no other significant changes to our contractual obligations during the first nine months of fiscal 2018.

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.

Table of Contents**ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***Investment Portfolio and Interest Rate Risk*

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 that are 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 2 and Note 3 to the financial statements in Part I, Item 1 of this Quarterly Report for a summary of the amortized cost and fair value of our investments by type of issue.

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. If the Federal Reserve Target Rate had increased by 25 basis points from the level of April 30, 2018, the value of our investments at that date would have decreased by approximately \$1 million. If the Federal Reserve Target Rate had increased by 100 basis points from the level of April 30, 2018, the value of our investments at that date would have decreased by approximately \$4.1 million.

We are also exposed to the impact of changes in interest rates as they affect our \$1 billion unsecured revolving credit facility and \$500 million unsecured term loan. Advances under the revolving credit facility accrue interest at rates that are equal to Bank of America'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%. The term loan accrues interest at rates that are equal to, at our election, either Bank of America's alternate base rate plus a margin that ranges from 0.125% to 0.875% or LIBOR plus a margin that ranges from 1.125% to 1.875%. Actual margins under all of these elections are based on our senior debt credit ratings. Consequently, our interest expense fluctuates with changes in the general level of these interest rates. At April 30, 2018, no amounts were outstanding under the revolving credit facility and \$450 million was outstanding under the term loan. See Note 5 and Note 6 to the financial statements in Part I, Item 1 of this Quarterly Report for more information.

Impact of Foreign Currency Rate Changes

The functional currencies of our international operating subsidiaries are generally 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 in our statements of operations.

Since we translate foreign currencies (primarily Canadian dollars, Indian rupees, and British pounds) into U.S. dollars for financial reporting purposes, currency fluctuations can have an impact on our financial results. The historical impact of currency fluctuations on our financial results has generally been immaterial. We believe that our exposure to currency exchange fluctuation risk is not significant primarily because our global 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, the impact of currency fluctuations could be material in the future. As of April 30, 2018, we did not engage in foreign currency hedging activities.

Table of Contents

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 Rules 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.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and that they are effective at the reasonable assurance level. However, no matter how well conceived and executed, a control system can provide only reasonable and not absolute assurance that the objectives of the control system are met. The design of any control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. There are also limitations that are inherent in any control system. These limitations include the realities that breakdowns can occur because of errors in judgment or mistakes, and that controls can be circumvented by individual persons, by collusion of two or more people, or by management override of the controls. Because of these inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

Table of Contents

PART II - OTHER INFORMATION

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

Our businesses routinely encounter and address risks, many of which could cause our future results to be materially different than we presently anticipate. Below, we describe certain important risks, categorized solely for ease of reference as strategic, operational, legal and compliance, and financial risks. The manner in which we respond to future developments as well as our competitors' reactions to those developments may affect our future operating results.

STRATEGIC RISKS

Strategic risks relate to our current and future operating model, business plans and growth strategy, including the risks associated with the following: competitive pressures on our product offerings and business models; our ability to adapt to technological changes and global trends; our reliance on third-party intellectual property and our ability to protect our own intellectual property rights; the value of our brand; and mergers, acquisitions and divestiture activity that may have unanticipated costs and expenses.

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 marketing to target our customers, including small businesses and tax customers.

We also face competition from companies with a variety of business models and monetization strategies, including increased competition from providers of free offerings, particularly in our tax, accounting, and payments businesses. In order to compete, we have also introduced free offerings in several categories, but we may not be able to attract customers as effectively as competitors with different business models. In addition, we may not be able to monetize our free offerings if other providers of free offerings provide features that we do not offer and customers who have formerly paid for Intuit's products and services may elect to use our competitors' 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 proposing revenue strategies that involve developing and providing government tax software or other government return preparation systems at public expense. These or similar programs may be introduced or expanded in the future, which may change the voluntary compliance tax system in ways that could cause us to lose customers and revenue. The IRS Free File Program is currently the sole means by which the IRS offers tax software to taxpayers, and as part of the program the IRS has agreed it will not offer a competing service. Under this program, the IRS has worked with private industry to provide more than 50 million free returns since 2003, utilizing donated private sector tax software and e-filing services for low and middle income taxpayers at no cost to users or the government. However, its continuation depends on a number of factors, including increasing public awareness of and access to the free program, as well as continued government support. The current agreement is scheduled to expire in October 2020. If the Free File Program were to be terminated and the IRS were to enter the software development and return preparation space, the federal government would become a direct competitor of the U.S. tax services industry and of Intuit, which could potentially have material and adverse revenue implications.

Future revenue growth depends upon our ability to adapt to technological change as well as global trends in the way customers access consumer software offerings and successfully introduce new and enhanced products, services and business models.

Online offerings, 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 online, mobile, and other

Table of Contents

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. 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. We also provide additional customer benefits by utilizing customer data available to us through our existing offerings. If we are not able to develop and clearly demonstrate the value of new or upgraded products or services to our customers, or effectively utilize our customers' data, our revenues may be harmed. In addition, as we continue to introduce and expand our new business models, including offerings that are free to end users, we may be unsuccessful in monetizing or increasing customer adoption of these offerings or our risk profile may change, resulting in loss of revenue. 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, continues to increase. We have devoted significant resources to develop products and services for users of these alternative devices, but 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. 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.

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 may need to 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 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.

Edgar Filing: INTUIT INC - Form 10-Q

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

Table of Contents

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.

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.

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, both in and outside the United States. Acquisitions involve significant risks and uncertainties, including:

- inability to successfully integrate the acquired technology, data assets and operations into our business and maintain uniform standards, controls, policies, and procedures;
- inability to realize synergies expected to result from an acquisition;
- disruption of our ongoing business and distraction of management;
- 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 or with regulatory requirements, and may require significant time and resources to align or rectify;
- unidentified issues not discovered in our due diligence process, including product or service quality issues, intellectual property issues and legal contingencies;
- failure to successfully further develop an acquired business or technology and any resulting impairment of amounts currently capitalized as intangible assets;
- in the case of foreign acquisitions and investments, the impact of particular economic, tax, currency, political, legal and regulatory risks associated with specific countries.

We have divested and may in the future divest certain assets or businesses that no longer fit with our strategic direction or growth targets. Divestitures involve significant risks and uncertainties, including:

- inability to find potential buyers on favorable terms;
- failure to effectively transfer liabilities, contracts, facilities and employees to buyers;
- requirements that we retain or indemnify buyers against certain liabilities and obligations;
- the possibility that we will become subject to third-party claims arising out of such divestiture;
- challenges in identifying and separating the intellectual properties and data to be divested from the intellectual properties and data that we wish to retain;
- inability to reduce fixed costs previously associated with the divested assets or business;
- challenges in collecting the proceeds from any divestiture;
- disruption of our ongoing business and distraction of management;
- loss of key employees who leave the Company as a result of a divestiture;
- if customers or partners of the divested business do not receive the same level of service from the new owners, our other businesses may be adversely affected, to the extent that these customers or partners also purchase other products offered by us or otherwise conduct business with our retained business.

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.

OPERATIONAL RISKS

Operational risks arise from internal and external events relating to systems, processes and people. Risks that affect the operation of our businesses include the following: security breaches; privacy and cybersecurity concerns relating to online

Table of Contents

offerings; fraudulent activities by third parties; relationships with third parties; competition for and retention of key talent; issues with our product launches; problems with our information technology infrastructure; and risks associated with operating internationally.

A security breach of us or our vendors resulting in third-party access to our sensitive customer and employee information and data, or other sensitive, nonpublic business information, could materially disrupt our businesses, result in the disclosure of confidential information, significantly damage our reputation, subject us to costly litigation and cause material losses.

We host, collect, use and retain large amounts of sensitive and personal customer and employee information and data, including credit card information, tax return information, bank account numbers, login credentials and passwords, personal and business financial data and transactions, social security numbers, healthcare information and payroll information, as well as confidential, nonpublic business information. We use commercially available security technologies to protect this information and data, and we also use security and business controls to limit access to and use of such sensitive information and data. Although we expend significant resources to create security protections that shield our, and our customers', data against potential theft and security breaches, such measures cannot provide absolute security. We have experienced instances in the past where criminals, using stolen identity information obtained outside of our systems, have gained unauthorized and illegal access to our customers' data. As the accessibility of stolen identity information increases, we may experience additional instances of unauthorized and illegal access to our systems using our customers' stolen identity information in the future. Further, because we have created an ecosystem where customers can have one identity across multiple products, a security breach may give access to increased amounts of customer data. In addition, third parties may fraudulently induce employees, customers, or users to disclose sensitive information in order to gain access to our systems, which host our, and our customers', sensitive data. The security measures that we implement may not be able to prevent access to our systems from unauthorized users who have fraudulently obtained our customers' personal information. In addition, because the techniques used to obtain unauthorized access change frequently, becoming more sophisticated and are often not able to be detected until after a successful attack, we may be unable to anticipate these techniques or implement adequate preventive measures.

Our technologies, systems, and networks, and those of our third parties and customers have been subject to, and are likely to continue to be the target of, cyber-attacks, computer viruses, worms, phishing attacks, malicious software programs and other information security incidents that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our customers' or employees' sensitive and personal information and data or Intuit's sensitive business data. These attacks could also disrupt our or our customers' or other third parties' business operations. These types of attacks can be made by individuals, groups of hackers, and sophisticated organizations including state-sponsored organizations or nation-states themselves. Customers that fail to update their systems, continue to run software that we no longer support or that fail to install security patches on a timely basis make it more difficult for us to detect and prevent these kinds of attacks. Although this is an industry-wide problem that affects software and hardware across platforms, it is increasingly affecting our offerings because cyber-criminals tend to focus their efforts on well-known offerings that are popular among customers and hold sensitive information and we expect them to continue to do so. If these cyber-criminals are able to circumvent our security measures, exploit vulnerabilities in our customers' devices or customers' behavior, or if we are unable to detect an intrusion into our systems and contain such intrusion in a reasonable amount of time, our customers' sensitive and personal information and data may be compromised.

We or our customers also grant certain third-party partners, developers and vendors access to customer data to help deliver customer benefits, or to host certain of our and our customers' sensitive and personal information and data. In addition, we share sensitive, nonpublic business information (including, for example, materials relating to financial, business and legal strategies) with other vendors in the ordinary course of business. While we conduct background checks of our workforce, conduct reviews of partners, developers and vendors and use commercially available technologies to limit access to systems and data, it is possible that one or more of these individuals or third parties may misrepresent their intended use of data or may circumvent our controls, resulting in accidental or intentional disclosure or misuse of our customers' or employees' data. In addition, we rely on third-party vendors to host certain of our sensitive and personal information and data. While we conduct due diligence on these third-party partners with respect to their security and business controls, we may not have the ability to effectively monitor or oversee the implementation of these controls measures, and, in any event, individuals or third parties may be able to circumvent these security and business controls and/or exploit vulnerabilities that may exist in these controls, resulting in the disclosure or misuse of sensitive business and personal customer or employee information and data.

A major breach of our security measures or those of our third party vendors may have serious negative consequences for our businesses, including disclosure of sensitive customer or employee data, or confidential or competitively sensitive information regarding our business, including intellectual property and other proprietary

Edgar Filing: INTUIT INC - Form 10-Q

data; possible litigation, fines, penalties and damages; material 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.

[Intuit Q3 Fiscal 2018 Form 10-Q](#) 40

Table of Contents

Privacy and cybersecurity concerns relating to online offerings, including our offerings specifically, as well as the external environment generally, and security breaches of third-party offerings, could make our products more vulnerable to fraudulent activity, damage our reputation and deter current and potential customers from adopting our products and services.

From time to time, we detect, or receive notices from customers or public or private agencies that they have detected, actual or perceived vulnerabilities in our servers, our software or third-party software components that are distributed with our products or fraudulent activity by unauthorized persons utilizing our products with stolen customer identity information. The existence of such vulnerabilities or fraudulent activity, even if they do not result in a security breach, may undermine customer confidence as well as the confidence of government agencies that regulate our offerings. As we further transition our businesses to online and connected services, continue to collect more personal and sensitive information, and operate in more countries, the risk that perceived vulnerabilities of our systems could seriously harm our business by tarnishing our reputation and brand and/or limiting the adoption of our products and services is likely to increase.

In addition, the continued occurrence of cyber-attacks and data breaches on governments, businesses and consumers in general, indicates that we operate in an external environment where cyber-attacks and data breaches are becoming increasingly common. If the global cybersecurity environment worsens, and there are increased instances of security breaches of third-party offerings where consumers' data and sensitive information is compromised, consumers may be less willing to use online offerings, particularly offerings like ours where customers often share sensitive financial data. In addition, the increased availability of data obtained as a result of breaches of third-party offerings could make our own products more vulnerable to fraudulent activity. This could damage our reputation and deter current and potential customers from adopting our products and services or lead customers to cease using online and connected software products to transact financial business altogether.

If we are unable to effectively combat the increasing amount and sophistication of fraudulent activities by third parties using our offerings, we may suffer losses, which may be substantial, and lose the confidence of our customers and government agencies and our revenues and earnings may be harmed.

The online tax preparation, payroll administration and online payments industries have been experiencing an increasing amount of fraudulent activities by third parties, and those fraudulent activities are becoming increasingly sophisticated. Although we do not believe that any of this activity is uniquely targeted at our products or business, this type of fraudulent activity may adversely impact our tax, payroll, and payments businesses. In addition to any losses that may result from such fraud, which may be substantial, a loss of confidence by our customers or by governmental agencies in our ability to prevent fraudulent activity that is perpetrated through our offerings may seriously harm our business and damage our brand. If we cannot adequately combat such fraudulent activity that is perpetrated through our tax offerings, governmental authorities may refuse to allow us to continue to offer such services, which could include federal or state tax authorities refusing to allow us to process our customers' tax returns electronically, resulting in a significant adverse impact on our earnings and revenue. As fraudulent activities become more pervasive and increasingly sophisticated, and fraud detection and prevention measures must become correspondingly more complex to combat them 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, which could result in lost revenue and negatively impact our earnings.

If we fail to process transactions effectively or fail to adequately protect against disputed or potential fraudulent activities, our business 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. Despite our efforts to ensure that effective processing systems and controls are in place to handle transactions appropriately, 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, or if there is an error in our products, we may be unable to process customer data in an accurate, reliable and timely manner, which may harm our reputation, the willingness of customers to use our products, and our financial results. 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.

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.

Edgar Filing: INTUIT INC - Form 10-Q

Our reputation and ability to attract, retain and serve our customers is dependent upon the reliable performance of our products and our underlying technical infrastructure. 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, including, for example, third-party Internet-based or “cloud” computing services. 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. In the event of significant system disruption

Table of Contents

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 third-party 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.

Our tax businesses must effectively handle extremely heavy customer demand during critical peak periods from January until April of each year. We face significant risks in maintaining adequate service levels during these peak periods where we derive a substantial portion of our overall revenue from the tax businesses. Any interruptions in our online tax preparation or electronic filing service at any time during the tax season, particularly during a peak period, could result in significantly decreased revenue, lost customers, additional refunds of customer charges, negative publicity and increased operating costs, any of which could 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 and to third-party hosted environments. If we do not execute the transition to these new environments in an effective manner, we may experience unplanned service disruptions or unforeseen increases in costs which may harm our operating results and our business.

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 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. In addition, our corporate headquarters and other critical business operations are located near major seismic faults. In the event of a major natural or man-made disaster, our insurance coverage may not completely compensate us for our losses and our future financial results may be materially harmed.

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

Our growth is increasingly dependent on the strength of our business relationships and our ability to continue to develop, manage and maintain new and existing relationships. We rely on various third-party partners, including software and service providers, suppliers, vendors, manufacturers, distributors, accountants, 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.

Although we have strict standards for our suppliers and business partners to comply with the law and company policies regarding workplace and employment practices, data use and security, environmental compliance, intellectual property licensing and other applicable regulatory and compliance requirements, we cannot control their day-to-day practices. If any of them violate laws or implements practices regarded as unethical, we could experience supply chain disruptions, canceled orders, terminations of or damage to key relationships, and damage to our reputation.

In particular, we have relationships with banks, credit unions and other financial institutions that support certain critical services we offer to our customers. If macroeconomic conditions or other factors cause any of these

Edgar Filing: INTUIT INC - Form 10-Q

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 have also started to increasingly utilize the distribution platforms of third parties like Apple's App Store and Google's Play Store 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.

Table of Contents***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 science, 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 develop the right quality and quantity of engaged and committed talent. The incentives we have available to attract, retain, and motivate employees provided by our equity awards may become less effective, and if we were to issue significant equity to attract additional employees, the ownership of our existing stockholders would be diluted. 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.

The nature of our products and services necessitates timely product launches, and if we experience significant product accuracy or 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 and potentially late 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 may contain errors that could unexpectedly interfere with the operation of the software or result in incorrect calculations. The complexity of the tax laws on which our products are based 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, work with state tax administrators to communicate with affected customers, assist customers with amendments, 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 either late in our development cycle or after release it may cause us to delay our product launch date or suspend product availability until such issues can be fixed. Any major defects, launch delays or product suspensions 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 other payments, including those resulting from our accuracy guarantee in our tax preparation products. For example, an error in our tax products could cause a compliance error for taxpayers, including the over or underpayment of their federal or state tax liability. While our accuracy guarantee commits us to reimburse penalties and interest paid by customers due solely to calculation errors in our tax preparation products, such errors may result in additional burdens on third parties that we may need to address or that may cause us to suspend the availability of our products until such errors are addressed. This could also affect our reputation, the willingness of customers to use our products, and our 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.

Edgar Filing: INTUIT INC - Form 10-Q

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:

- different or more restrictive privacy, data protection, data localization, and other laws that could require us to make changes to our products, services and operations, such as mandating that certain types of data collected in a particular country be stored and/or processed within that country;
- difficulties in developing, staffing, and simultaneously managing a large number of varying foreign operations as a result of distance, language, and cultural differences;

Table of Contents

stringent local labor laws and regulations;
 credit risk and higher levels of payment fraud;
 profit repatriation restrictions, and foreign currency exchange restrictions;
 geopolitical events, including natural disasters, 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;
 antitrust and competition regulations;
 potentially adverse tax developments;
 economic uncertainties relating to European sovereign and other debt;
 trade barriers and changes in trade regulations;
 political or social unrest, economic instability, repression, or human rights issues; and
 risks related to other government regulation or required compliance with local laws.

Violations of the rapidly evolving and 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.

LEGAL AND COMPLIANCE RISKS

Legal and compliance risks arise from change in the government and regulatory environment, potential litigation, regulatory inquiries and intellectual property infringement claims. Government and regulatory risk include the following: increased government regulations; ongoing litigation and regulatory inquiries; and intellectual property infringement.

Increased government regulation of our businesses, or changes to existing regulations, may harm our operating results.

The Company is subject to federal, state and local laws and regulations that affect the Company's activities, including, without limitation, areas of labor, advertising, tax, financial services, data privacy and security requirements, digital content, consumer protection, real estate, billing, e-commerce, promotions, quality of services, intellectual property ownership and infringement, import and export requirements, anti-corruption, foreign exchange controls and cash repatriation restrictions, anti-competition, environmental, health and safety.

There have been significant new regulations and heightened focus by the government on many of these areas, as well as in areas such as insurance, privacy and healthcare (including, for example, the Affordable Care Act). As we expand our products and services and revise our business models, both domestically and internationally, we may become subject to additional government regulation or increased regulatory scrutiny. Further, regulators (both in the U.S. and in other jurisdictions in which we operate) may adopt new laws or regulations, change existing regulations, or their interpretation of existing laws or regulations may differ from ours.

As our business continues to expand to countries outside the United States that have more complex privacy, security and data protection laws, our compliance requirements and costs may increase. For example, recent legal developments in the European Union have created compliance uncertainty and increased complexity. The European Commission and the Swiss Government approved the EU-U.S. and Swiss-U.S. Privacy Shield frameworks, respectively, that provide a mechanism for companies to legally transfer personal data from the EU and Switzerland to the U.S. However, these frameworks as well as other personal data transfer mechanisms face a number of legal challenges, both by regulators and private parties. A change in these transfer mechanisms could cause us to incur costs or require us to change our business practices in a manner adverse to our business. In addition, the EU's General Data Protection Regulation (GDPR), which contains a compliance deadline of May 25, 2018 will apply to all of our activities related to products and services that we offer to EU customers and workers. The GDPR requires that we make certain operational changes to these products and our business practices, and will include significant penalties for non-compliance (including possible fines of up to 4% of total company revenue). Other governmental authorities around the world are considering similar types of legislative and regulatory proposals concerning data protection. Each of these privacy, security and data protection laws and regulations could impose significant limitations, require changes to our business, require notification to customers or workers of a security breach, restrict our use or storage of personal information, or cause changes in customer purchasing behavior 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 make customers less likely to purchase our products or harm our future financial results. Additionally, any actual or alleged noncompliance with these laws and regulations could result in negative publicity and subject us to investigations, claims or other remedies, including demands that we modify or cease existing business practices, and expose us to significant fines,

penalties and other

Table of Contents

damages. We have incurred – and may continue to incur – significant expenses to comply with existing privacy and security standards and protocols imposed by law, regulation, industry standards or contractual obligations. The tax preparation industry continues to receive heightened attention from federal and state governments. New legislation, regulation, public policy considerations, changes in the cybersecurity environment, litigation by the government or private entities, changes to 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. We may not be able to respond quickly to such regulatory, legislative and other developments, and these changes may in turn 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.

We are also subject to certain laws and regulations in the U.S. and other jurisdictions relating to electronic funds transfer, money transmission and other regulated activities. In the event laws governing regulated activities change or expand, we may be subject to additional compliance costs. As we increase our business activities into regulated areas, such as lending, we may be subject to increased regulations and compliance requirements.

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 (including class action lawsuits), 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 our business and future financial results. For further information about specific litigation, see Item 1, “Legal Proceedings”.

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

We may become increasingly subject to infringement claims, including patent, copyright, trade secret, and trademark infringement claims. Litigation may be necessary to determine the validity and scope of the intellectual property rights of others. We have received a number of allegations of intellectual property infringement claims in the past and expect to receive more claims in the future based on allegations that our offerings infringe upon the intellectual property 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 intellectual property owners who have no relevant product revenues of their own, and against whom our own intellectual property 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 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.

FINANCIAL RISKS

Edgar Filing: INTUIT INC - Form 10-Q

Financial risks relate to our ability to meet financial obligations and mitigate exposure to financial impacts to our businesses or our offerings. Financial risks arise from the following: seasonality; excessive product returns; unanticipated changes in income tax rates; adverse global macro-economic conditions; fluctuations in our net income; indebtedness; and the fluctuation of our stock price.

Table of Contents***Our tax business is highly seasonal and our quarterly results could fluctuate significantly.***

Our tax offerings have significant seasonal patterns. Revenue from income tax preparation products and services is heavily concentrated during November through April. This seasonality has caused significant fluctuations in our quarterly financial results. Our financial results may also fluctuate from quarter to quarter and year to year due to a variety of factors, including factors that may affect the timing of revenue recognition. These include changes to our offerings that result in the inclusion or exclusion of ongoing services; changes in product pricing strategies or product sales mix; the timing of the availability of federal and state tax forms from taxing agencies and the ability of those agencies to receive electronic tax return submissions; changes in customer behavior; and the timing of our discontinuation of support for older product offerings. Other factors that may affect our quarterly or annual financial results include 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.

If actual product returns exceed 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 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, by changes in our stock price, or by changes in tax laws or their interpretation, including the recently passed Tax Act. 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.

Adverse global economic conditions could harm our business and financial condition.

Adverse macroeconomic developments could negatively affect our business and financial condition. Adverse global economic events have caused, and could, in the future, cause disruptions and volatility in global financial markets and increased rates of default and bankruptcy, and could impact consumer and small business spending. While we have historically performed well in economic downturns, there is no guarantee that we would continue to perform well in future adverse macroeconomic conditions. 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. Challenging economic times could cause potential new customers not to purchase or to delay purchasing of our products and services, and could cause our existing customers to discontinue purchasing or delay upgrades of our existing products and services, thereby negatively impacting our revenues and future financial results. Decreased consumer spending levels could also reduce credit and debit card transaction processing volumes causing reductions in our payments revenue. Poor economic conditions and high unemployment have caused, and could in the future 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 could negatively affect the cash flow of our distributors and resellers who could, in turn, delay paying their obligations to us, which could increase our credit risk exposure and cause delays in our recognition of revenue or future sales to these customers. Any of these events could harm our business and 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 \$14 million in fiscal 2017; \$34 million in fiscal 2016; and \$339 million in fiscal 2015, of which \$149 million was classified as discontinued operations. 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 2015 included goodwill and intangible asset impairment charges of \$297 million, of which \$149 million was classified as discontinued operations. At April 30, 2018, we had \$1.6 billion in goodwill and \$68 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.

Table of Contents

We have \$450 million in debt outstanding under the term loan and may incur other debt in the future, which may adversely affect our financial condition and future financial results.

On February 1, 2016, we entered into a master credit agreement with certain institutional lenders for a new five-year credit facility in an aggregate principal amount of \$1.5 billion. The master credit agreement includes a \$500 million unsecured term loan and a \$1 billion unsecured revolving credit facility that will expire on February 1, 2021. As of April 30, 2018, \$450 million was outstanding on the term loan and no amounts were outstanding under the revolving credit facility. We may use the proceeds of any advances against the credit facility for general corporate purposes, including future acquisitions and share repurchases.

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 unsecured 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 unsecured 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 unsecured 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.

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.

Table of Contents**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 April 30, 2018 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
February 1, 2018 through February 28, 2018	15,600	\$ 163.64	15,600	\$ 1,265,955,840
March 1, 2018 through March 31, 2018	43,990	\$ 167.89	43,990	\$ 1,258,570,143
April 1, 2018 through April 30, 2018	55,350	\$ 169.46	55,350	\$ 1,249,190,341
Total	114,940	\$ 168.07	114,940	

Note: All of the shares purchased as part of publicly announced plans during the three months ended April 30, 2018 were purchased under a plan we announced on August 19, 2016 under which we are authorized to repurchase up to \$2 billion of our common stock. At April 30, 2018, authorization from our Board of Directors to expend up to \$1.2 billion remained available under that plan.

ITEM 6 - EXHIBITS

See the Exhibit Index immediately following the signature page of this Quarterly Report on Form 10-Q.

Table of Contents

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: May 22, 2018 By: /s/ MICHELLE
M.
CLATTERBUCK
Michelle M.
Clatterbuck
Executive Vice
President and
Chief Financial
Officer
(Authorized
Officer and
Principal
Financial
Officer)

Table of Contents**EXHIBIT INDEX**

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference
31.01	<u>Certification of Chief Executive Officer</u>	X	
31.02	<u>Certification of Chief Financial Officer</u>	X	
32.01*	<u>Section 1350 Certification (Chief Executive Officer)</u>	X	
32.02*	<u>Section 1350 Certification (Chief Financial Officer)</u>	X	
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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	

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