INTUIT INC
Form 10-Q
November 18, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

_____

FORM 10-Q

þ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended October 31, 2016

OR

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

Commission File Number 0-21180
INTUIT INC.
(Exact name of registrant as specified in its charter)

Delaware	77-0034661
(State of incorporation)	(IRS employer identification no.)

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

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

Indicate by check mark 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 þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 256,638,049 shares of Common Stock, $0.01 par value, were outstanding at November 14, 2016.

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EX-31.01
EX-31.02
EX-32.01
EX-32.02
EX-101.INS XBRL Instance 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

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PART I
ITEM 1
FINANCIAL STATEMENTS

INTUIT INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(In millions, except per share amounts)	Three Months Ended October 31, 2016	October 31, 2015
Net revenue:		
Product	$297	$ 271
Service and other	481	442
Total net revenue	778	713
Costs and expenses:		
Cost of revenue:		
Cost of product revenue	29	29
Cost of service and other revenue	151	131
Amortization of acquired technology	3	6
Selling and marketing	283	244
Research and development	246	213
General and administrative	126	117
Amortization of other acquired intangible assets	1	2
Total costs and expenses	839	742
Operating loss from continuing operations	(61)	(29)
Interest expense	(9)	(7)
Interest and other income (expense), net	(2)	(4)
Loss before income taxes	(72)	(40)
Income tax provision (benefit)	(42)	(9)
Net loss from continuing operations	(30)	(31)
Net income from discontinued operations	—	—
Net loss	$(30)	$ (31)
Basic net loss per share from continuing operations	$(0.12)	$ (0.11)
Basic net income per share from discontinued operations	—	—
Basic net loss per share	$(0.12)	$ (0.11)
Shares used in basic per share calculations	258	272
Diluted net loss per share from continuing operations	$(0.12)	$ (0.11)
Diluted net income per share from discontinued operations	—	—
Diluted net loss per share	$(0.12)	$ (0.11)
Shares used in diluted per share calculations	258	272
Cash dividends declared per common share	$0.34	$ 0.30

See accompanying notes.

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INTUIT INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)

(In millions)	Three Months Ended October 31, 2016	October 31, 2015
Net loss	$(30)	$ (31)
Other comprehensive loss, net of income taxes:		
Unrealized losses on available-for-sale debt securities	(1)	—
Foreign currency translation losses	(4)	(2)
Total other comprehensive loss, net	(5)	(2)
Comprehensive loss	$(35)	$ (33)

See accompanying notes.

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INTUIT INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	October 31, 2016	July 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 360	$638
Investments	245	442
Accounts receivable, net	121	108
Income taxes receivable	57	20
Prepaid expenses and other current assets	153	102
Current assets before funds held for customers	936	1,310
Funds held for customers	326	304
Total current assets	1,262	1,614
Long-term investments	28	28
Property and equipment, net	1,047	1,031
Goodwill	1,293	1,282
Acquired intangible assets, net	39	44
Long-term deferred income taxes	151	139
Other assets	113	112
Total assets	$ 3,933	$4,250
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 625	$512
Accounts payable	165	184
Accrued compensation and related liabilities	136	289
Deferred revenue	739	801
Other current liabilities	190	161
Current liabilities before customer fund deposits	1,855	1,947
Customer fund deposits	326	304
Total current liabilities	2,181	2,251
Long-term debt	475	488
Long-term deferred revenue	197	204
Other long-term obligations	144	146
Total liabilities	2,997	3,089
Commitments and contingencies		
Stockholders' equity:		
Preferred stock	—	—
Common stock and additional paid-in capital	4,540	4,445
Treasury stock, at cost	(10,131)	(9,939)
Accumulated other comprehensive loss	(37)	(32)
Retained earnings	6,564	6,687
Total stockholders' equity	936	1,161
Total liabilities and stockholders' equity	$ 3,933	$4,250

See accompanying notes.

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INTUIT INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

(In millions, except shares in thousands)	Shares of Common Stock	Common Stock and Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
Balance at July 31, 2016	257,853	$ 4,445	$(9,939)	$ (32)	$ 6,687	$ 1,161
Comprehensive loss	—	—	—	(5)	(30)	(35)
Issuance of stock under employee stock plans, net of shares withheld for employee taxes	975	(2)	—	—	—	(2)
Stock repurchases under stock repurchase programs	(1,760)	—	(192)	—	—	(192)
Dividends and dividend rights declared ($0.34 per share)	—	—	—	—	(89)	(89)
Cumulative effect of change in accounting principle	—	6	—	—	(4)	2
Share-based compensation expense	—	91	—	—	—	91
Balance at October 31, 2016	257,068	$ 4,540	$(10,131)	$ (37)	$ 6,564	$ 936

(In millions, except shares in thousands)	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, 2015	277,706	$ 4,010	$(7,675)	$ (30)	$ 6,027	$ 2,332
Comprehensive loss	—	—	—	(2)	(31)	(33)
Issuance of stock under employee stock plans, net of shares withheld for employee taxes	998	24	—	—	—	24
Stock repurchases under stock repurchase programs	(14,359)	—	(1,270)	—	—	(1,270)
Dividends and dividend rights declared ($0.30 per share)	—	—	—	—	(82)	(82)
Tax benefit from share-based compensation plans	—	9	—	—	—	9
Share-based compensation expense	—	71	—	—	—	71
Balance at October 31, 2015	264,345	$ 4,114	$(8,945)	$ (32)	$ 5,914	$ 1,051

See accompanying notes.

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

(In millions)	Three Months Ended October 31, 2016	October 31, 2015
Cash flows from operating activities:		
Net loss	$(30)	$ (31)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	49	45
Amortization of acquired intangible assets	6	10
Share-based compensation expense	89	69
Deferred income taxes	(9)	(2)
Tax benefit from share-based compensation plans	—	9
Other	1	10
Total adjustments	136	141
Changes in operating assets and liabilities:		
Accounts receivable	(14)	(28)
Income taxes receivable	(38)	(17)
Prepaid expenses and other assets	(50)	(29)
Accounts payable	(2)	(6)
Accrued compensation and related liabilities	(148)	(145)
Deferred revenue	(67)	(54)
Other liabilities	8	(19)
Total changes in operating assets and liabilities	(311)	(298)
Net cash used in operating activities	(205)	(188)
Cash flows from investing activities:		
Purchases of corporate and customer fund investments	(125)	(117)
Sales of corporate and customer fund investments	298	940
Maturities of corporate and customer fund investments	22	64
Net change in cash and cash equivalents held to satisfy customer fund obligations	(22)	(10)
Net change in customer fund deposits	22	10
Purchases of property and equipment	(86)	(70)
Other	(11)	(1)
Net cash provided by investing activities	98	816
Cash flows from financing activities:		
Proceeds from borrowings under revolving credit facilities	100	350
Proceeds from issuance of stock under employee stock plans	43	47
Payments for employee taxes withheld upon vesting of restricted stock units	(45)	(23)
Cash paid for purchases of treasury stock	(175)	(1,253)
Dividends and dividend rights paid	(89)	(82)
Net cash used in financing activities	(166)	(961)
Effect of exchange rates on cash and cash equivalents	(5)	(1)
Net decrease in cash and cash equivalents	(278)	(334)
Cash and cash equivalents at beginning of period	638	808
Cash and cash equivalents at end of period	$360	$ 474

During the first quarter of fiscal 2017, we elected to early adopt ASU 2016-09, “Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.” See Note 1, “Description of Business and Summary of Significant Accounting Policies - Accounting Pronouncements Recently Adopted,” for more information.
Because the cash flows of our discontinued operations were not material for any period presented, we have not segregated the cash flows of those businesses on these statements of cash flows. See Note 4, “Discontinued Operations,” for more information.
See accompanying notes.

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

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Intuit Inc. provides business and financial management solutions for small businesses, consumers, and accounting professionals. With flagship products and services that include QuickBooks and TurboTax, we help customers solve important business and financial management problems such as running a small business, paying bills, and filing income taxes. ProSeries and Lacerte are Intuit's 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 discontinued operations and reportable segments. See Note 4, "Discontinued Operations," and Note 10, "Segment Information," for more information.

As discussed in Note 4, we sold our Demandforce, QuickBase, and Quicken businesses in the third quarter of fiscal 2016. We have reclassified our statements of operations for all periods presented to reflect these businesses as discontinued operations. Because the cash flows of these businesses were not material for any period presented, we have not segregated them on our statements of cash flows. Unless noted otherwise, discussions in these notes pertain to our continuing operations.

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, 2016. Results for the three months ended October 31, 2016 do not necessarily indicate the results we expect for the fiscal year ending July 31, 2017 or any other future period.

Seasonality

Our Consumer Tax 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, 2016. There have been no changes to our significant accounting policies during the first three months of fiscal 2017.

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 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.

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.

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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. Prior to our early adoption of ASU 2016-09 in the first quarter of fiscal 2017, we included tax benefits in assessing whether equity awards were dilutive and in our calculations of weighted average dilutive shares under the treasury stock method.

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.

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

(In millions, except per share amounts)	Three Months Ended October 31, 2016	October 31, 2015
Numerator:		
Net loss from continuing operations	$(30)	$ (31)
Net income from discontinued operations	—	—
Net loss	$(30)	$ (31)
Denominator:		
Shares used in basic per share amounts:		
Weighted average common shares outstanding	258	272
Shares used in diluted per share amounts:		
Weighted average common shares outstanding	258	272
Dilutive common equivalent shares from stock options and restricted stock awards	—	—
Dilutive weighted average common shares outstanding	258	272
Basic and diluted net loss per share:		
Basic net loss per share from continuing operations	$(0.12)	$ (0.11)
Basic net income per share from discontinued operations	—	—
Basic net loss per share	$(0.12)	$ (0.11)
Diluted net loss per share from continuing operations	$(0.12)	$ (0.11)
Diluted net income per share from discontinued operations	—	—
Diluted net loss per share	$(0.12)	$ (0.11)
Shares excluded from computation of diluted net loss per share:		
Weighted average stock options and restricted stock units that would have been included in the computation of dilutive common equivalent shares outstanding if net income had been reported in the period	12	12
Weighted average stock options and restricted stock units excluded from computation due to anti-dilutive effect	4	4

Concentration of Credit Risk and Significant Customers

No customer accounted for 10% or more of total net revenue in the three months ended October 31, 2016 or October 31, 2015. No customer accounted for 10% or more of gross accounts receivable at October 31, 2016 or July 31, 2016.

Recent Accounting Pronouncements

ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments”

In August 2016 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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

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date practicable. We are currently evaluating the impact of our pending adoption of ASU 2016-15 on our consolidated financial statements.

ASU 2016-13, “Financial Instruments—Credit Losses (Topic 326)”

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.

ASU 2016-02, “Leases (Topic 842)”

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.

ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)”

In May 2014 the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606),” and in August 2015 the FASB issued ASU 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date,” which defers the effective date of ASU 2014-09 by one year. This new standard supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of the standard is to recognize revenues 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. The standard 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 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 standard is effective for reporting periods 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. Early adoption of one year prior to the required effective date is permitted. The standard allows adoption using either of two methods: (i) retrospective to each prior reporting period presented, with the option to elect certain practical expedients; or (ii) retrospective with the cumulative effect of initially applying the standard recognized at the date of initial application and providing certain additional disclosures. We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements.

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

Accounting Pronouncements Recently Adopted

ASU 2016-09, “Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting”

In March 2016 the FASB issued ASU 2016-09, “Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.” We elected to early adopt this standard in the first quarter of our fiscal year that began August 1, 2016. As required by ASU 2016-09, excess tax benefits recognized on stock-based compensation expense are reflected in our condensed consolidated statements of operations as a component of the provision for income taxes on a prospective basis. For the three months ended October 31, 2016, we recognized excess tax benefits of $19 million in our provision for income taxes. As required by ASU 2016-09, excess tax benefits

are classified as an operating activity in our condensed consolidated statements of cash flows and we have applied this provision on a retrospective basis. For the three months ended October 31, 2015, net cash used in operating activities decreased by $9 million with a corresponding offset to net cash used in financing activities. In addition, we have elected to account for forfeitures as they occur, rather than estimate expected forfeitures over the course of a vesting period. As a result of the adoption of ASU 2016-09, we recognized the net

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cumulative effect of this change as a $6 million increase to additional paid-in capital, a $2 million increase to deferred tax assets and a $4 million reduction to retained earnings as of August 1, 2016.

ASU 2015-16, “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments”

In September 2015 the FASB issued ASU 2015-16, “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments.” This new standard eliminates the requirement for an acquirer to retrospectively adjust provisional amounts recorded in a business combination to reflect new information about the facts and circumstances that existed as of the acquisition date and that, if known, would have affected measurement or recognition of amounts initially recognized. As an alternative, the amendment requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments require that the acquirer record, in the financial statements of the period in which adjustments to provisional amounts are determined, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The standard became effective for our fiscal year that began August 1, 2016. Our adoption of ASU 2015-16 did not have an impact on our consolidated financial statements.

2. Fair Value Measurements

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

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

- Level 1 uses unadjusted quoted prices that are available in active markets for identical assets or liabilities.
- Level 2 uses inputs other than quoted prices included in Level 1 that are either directly or indirectly observable through correlation with market data. These include quoted prices in active markets for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs to valuation models or other pricing methodologies that do not require significant judgment because the inputs used in the model, such as interest rates and volatility, can be corroborated by readily observable market data for substantially the full term of the assets or liabilities.
- Level 3 uses one or more 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.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

(In millions)	October 31, 2016				July 31, 2016			
	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	$—	$—	$ —	$ —	$416	$—	$ —	$416
Available-for-sale debt securities:								
Municipal bonds	—	89	—	89	—	186	—	186
Corporate notes	—	356	—	356	—	420	—	420
U.S. agency securities	—	—	—	—	—	36	—	36
Municipal auction rate securities	—	—	15	15	—	—	15	15
Total available-for-sale securities	—	445	15	460	—	642	15	657
Total assets measured at fair value on a recurring basis	$—	$445	$ 15	$ 460	$416	$642	$ 15	$1,073
Liabilities:								
Senior notes (1)	$—	$508	$ —	$ 508	$—	$515	$ —	$515

(1) Carrying value on our balance sheets at October 31, 2016 was $500 million and at July 31, 2016 was $500 million. See Note 5, “Current Liabilities – Short-Term Debt,” for more information.

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

(In millions)	October 31, 2016				July 31, 2016			
	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	$—	$—	$ —	$ —	$312	$—	$ —	$ 312
In funds held for customers	—	—	—	—	104	—	—	104
Total cash equivalents	$—	$—	$ —	$ —	$416	$—	$ —	$ 416
Available-for-sale securities:								
In investments	$—	$245	$ —	$ 245	$—	$442	$ —	$ 442
In funds held for customers	—	200	—	200	—	200	—	200
In long-term investments	—	—	15	15	—	—	15	15
Total available-for-sale securities	$—	$445	$ 15	$ 460	$—	$642	$ 15	$ 657

We value our Level 1 assets, consisting primarily of money market funds, 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, and U.S. agency securities. 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.

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Financial liabilities whose fair values we measure using Level 2 inputs consist of senior unsecured notes. See Note 5, "Current Liabilities – Short-Term Debt," for more information. We measure the fair value of our senior notes based on their trading prices and the interest rates we could obtain for other borrowings with similar terms.

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 three months ended October 31, 2016.

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. Cash equivalents consist primarily of AAA-rated money market funds in all periods presented.

Investments at October 31, 2016 consisted of available-for-sale investment-grade debt securities that we carried at fair value. Funds held for customers consist of cash and cash equivalents and investment grade available-for-sale debt securities in all periods presented. 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.

	October 31, 2016		July 31, 2016	
(In millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Classification on balance sheets:				
Cash and cash equivalents	$360	$ 360	$638	$638
Investments	245	245	441	442
Funds held for customers	326	326	304	304
Long-term investments	28	28	28	28
Total cash and cash equivalents, investments, and funds held for customers	$959	$ 959	$1,411	$1,412

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

	October 31, 2016		July 31, 2016	
(In millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Type of issue:				
Total cash and cash equivalents	$486	$ 486	$742	$742
Available-for-sale debt securities:				
Municipal bonds	89	89	186	186
Corporate notes	356	356	419	420
U.S. agency securities	—	—	36	36
Municipal auction rate securities	15	15	15	15
Total available-for-sale debt securities	460	460	656	657
Other long-term investments	13	13	13	13
Total cash and cash equivalents, investments, and funds	$959	$ 959	$1,411	$1,412

held for customers

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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 or expense, net in our statements of operations. Gross realized gains and losses on our available-for-sale debt securities for the three months ended October 31, 2016 and October 31, 2015 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 October 31, 2016 and July 31, 2016 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 October 31, 2016 were not other-than-temporarily impaired. Unrealized losses on available-for-sale debt securities at October 31, 2016 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.

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

	October 31, 2016		July 31, 2016	
(In millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$223	$ 223	$285	$ 285
Due within two years	123	123	209	210
Due within three years	97	97	143	143
Due after three years	17	17	19	19
Total available-for-sale debt securities	$460	$ 460	$656	$ 657

Available-for-sale debt securities due after three years in the table above include our municipal auction rate securities. See Note 2, "Fair Value Measurements," for more information. All of the remaining securities in that category had interest reset dates or mandatory call dates within three years of the dates indicated in the table.

4. Discontinued Operations

On February 1, 2016 we completed the sale of our Demandforce business. On April 1, 2016 we completed the sales of our QuickBase and Quicken businesses. We received $463 million in cash and recorded a pre-tax gain of $354 million and a net gain of $173 million on the disposal of these three businesses in fiscal 2016.

We classified our Demandforce, QuickBase, and Quicken businesses as discontinued operations and have therefore segregated their operating results from continuing operations in our statements of operations for all periods presented. Because the cash flows of these businesses were not material for any period presented, we have not segregated them on our statements of cash flows. Demandforce and QuickBase were part of our Small Business segment and Quicken was part of our former Consumer segment.

Net revenue from discontinued operations was $59 million for the three months ended October 31, 2015. Net income from discontinued operations was not significant for the three months ended October 31, 2015.

5. Current Liabilities

Short-Term Debt

On March 12, 2007 we issued $500 million of 5.75% senior unsecured notes due on March 15, 2017. We carried these notes at face value less the unamortized discount in short-term debt on our balance sheets at October 31, 2016 and July 31, 2016. The notes are redeemable by Intuit at any time, subject to a make-whole premium, and include covenants that limit our ability to grant liens on our facilities and to enter into sale and leaseback transactions, subject

to significant allowances. We remained in compliance with these covenants at all times during the quarter ended October 31, 2016. Interest on the notes is payable semi-annually on March 15 and September 15. We paid $14 million in cash for interest on the notes during the three months ended October 31, 2016 and $14 million in cash for interest on the notes during the three months ended October 31, 2015.

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Unsecured Revolving Credit Facilities

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. See Note 6, “Long-Term Obligations and Commitments – Long-Term Debt,” for more information regarding the term loan. 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 remained in compliance with these covenants at all times during the quarter ended October 31, 2016. During the three months ended October 31, 2016 we borrowed $100 million under this revolving credit facility and at October 31, 2016 $100 million was outstanding.

Other Current Liabilities

Other current liabilities were as follows at the dates indicated:

(In millions)	October 31, 2016	July 31, 2016
Reserve for product returns	$ 7	$ 7
Reserve for rebates	16	14
Current portion of license fee payable	10	10
Current portion of deferred rent	7	6
Interest payable	4	11
Amounts due for share repurchases	17	—
Executive deferred compensation plan liabilities	77	69
Other	52	44
Total other current liabilities	$ 190	$ 161

The balances of several of our other current liabilities, particularly our reserves for product returns 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. 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. See Note 5, “Current Liabilities – Unsecured Revolving Credit Facilities,” for more information regarding the revolving credit facility. 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 Facilities,” for more information. The term loan is subject to quarterly principal payments of 2.5% of the loan amount beginning in July 2017, with the balance payable on February 1, 2021. At October 31, 2016, $500 million was outstanding under the

term loan, of which $25 million was classified as short-term debt. Interest on the term loan is payable monthly. We paid $2 million in cash for interest on the term loan during the three months ended October 31, 2016.

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Other Long-Term Obligations

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

(In millions)	October 31, 2016	July 31, 2016
Total deferred rent	$ 54	$ 56
Total license fee payable	27	26
Long-term income tax liabilities	54	54
Long-term deferred income tax liabilities	7	7
Other	19	20
Total long-term obligations	161	163
Less current portion (included in other current liabilities)	(17)	(17)
Long-term obligations due after one year	$ 144	$ 146

Operating Lease Commitments

We describe our operating lease commitments in Note 9 to the financial statements in Item 8 of our Annual Report on Form 10-K for the fiscal year ended July 31, 2016. There were no significant changes in our operating lease commitments during the three months ended October 31, 2016.

7. Income Taxes

Adoption of ASU 2016-09, “Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting”

In the first quarter of fiscal 2017, we elected to early adopt ASU 2016-09, "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." This new standard requires excess tax benefits recognized on stock-based compensation expense to be reflected in the statements of operations as a component of the provision for income taxes on a prospective basis. See Note 1, “Description of Business and Summary of Significant Accounting Policies,” for more information.

Effective Tax Rate

We compute our provision for or benefit from income taxes by applying the estimated annual effective tax rate to income or loss from recurring operations and adding the effects of any discrete income tax items specific to the period.

In December 2015 the Consolidated Appropriations Act, 2016 was signed into law. The Act includes a permanent reinstatement of the federal research and experimentation credit that was retroactive to January 1, 2015.

Our effective tax rate for the three months ended October 31, 2016 was approximately 58%. Excluding discrete tax items primarily related to share-based compensation tax benefits resulting from the adoption of ASU 2016-09, our effective tax rate for the period 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 and nondeductible share-based compensation.

Our effective tax rate for the three months ended October 31, 2015 was approximately 22%. Excluding discrete tax items primarily related to share-based compensation as well as including the effects of losses in certain jurisdictions where we do not recognize a tax benefit, our effective tax rate for the period was approximately 36% and did not differ significantly from the federal statutory rate of 35%. Tax expense related to nondeductible share-based compensation, state income taxes, and the effects of losses in certain jurisdictions where we do not recognize a tax benefit were partially offset by the benefit we received from the domestic production activities deduction.

Unrecognized Tax Benefits and Other Considerations

The total amount of our unrecognized tax benefits at July 31, 2016 was $60 million. Net of related deferred tax assets, unrecognized tax benefits were $40 million at that date. If we were to recognize these net benefits, our income tax expense would reflect a favorable net impact of $40 million. There were no material changes to these amounts during the three months

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ended October 31, 2016. We do not believe that it is reasonably possible that there will be a significant increase or decrease in our unrecognized tax benefits over the next 12 months.

8. Stockholders' Equity

Stock Repurchase Programs 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 1.8 million shares for $192 million under these programs during the three months ended October 31, 2016. Included in this amount were $17 million of repurchases which occurred in late October 2016 and were settled in early November 2016. We repurchased 14.4 million shares for $1.3 billion under these programs during the three months ended October 31, 2015. At October 31, 2016, we had authorization from our Board of Directors to expend up to an additional $2.2 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 three months ended October 31, 2016 we declared and paid quarterly cash dividends that totaled $0.34 per share of outstanding common stock or $89 million. In November 2016 our Board of Directors declared a quarterly cash dividend of $0.34 per share of outstanding common stock payable on January 18, 2017 to stockholders of record at the close of business on January 10, 2017. 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 loss from continuing operations for the periods shown.

(In millions, except per share amounts)	Three Months Ended October 31, 2016	Three Months Ended October 31, 2015
Cost of revenue	$ 2	$ 2
Selling and marketing	25	19
Research and development	36	21
General and administrative	26	25
Total share-based compensation expense	$ 89	$ 67

We capitalized $2 million in share-based compensation related to internal use software projects during the three months ended October 31, 2016 and $2 million during the three months ended October 31, 2015. The table above also excludes share-based compensation expense for our discontinued operations, which totaled $2 million during the three months ended October 31, 2015. Because we have not reclassified our statements of cash flows to segregate discontinued operations, this amount is included in share-based compensation expense on our statement of cash flows

for that period.

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Share-Based Awards Available for Grant

A summary of share-based awards available for grant under our 2005 Equity Incentive Plan for the three months ended October 31, 2016 was as follows:

(Shares in thousands)	Shares Available for Grant
Balance at July 31, 2016	8,990
Options granted	—
Restricted stock units granted (1)	(862)
Share-based awards canceled/forfeited/expired (1)(2)	1,675
Balance at October 31, 2016	9,803

(1) RSUs granted from the pool of shares available for grant under our 2005 Equity Incentive Plan reduce the pool by 2.3 shares for each share granted. RSUs forfeited and returned to the pool of shares available for grant increase the pool by 2.3 shares for each share forfeited.

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

Stock Option Activity and Related Share-Based Compensation Expense

A summary of stock option activity for the three months ended October 31, 2016 was as follows:

(Shares in thousands)	Options Outstanding Number of Shares	Options Outstanding Weighted Average Exercise Price Per Share
Balance at July 31, 2016	8,346	$ 88.55
Granted	—	—
Exercised	(251)	66.40
Canceled or expired	(81)	87.16
Balance at October 31, 2016	8,014	$ 89.26
Exercisable at October 31, 2016	3,806	$ 69.97

At October 31, 2016, there was approximately $73 million of unrecognized compensation cost related to non-vested stock options with a weighted average vesting period of 2.3 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 three months ended October 31, 2016 was as follows:

(Shares in thousands)	Restricted Stock Units Number of Shares	Restricted Stock Units Weighted Average Grant Date Fair Value
Nonvested at July 31, 2016	9,039	$ 82.30
Granted	374	110.35

Vested	(659)	50.54
Forfeited	(668)	65.06
Nonvested at October 31, 2016	8,086	$ 87.61

At October 31, 2016, there was approximately $536 million of unrecognized compensation cost related to non-vested RSUs with a weighted average vesting period of 2.3 years. We will adjust unrecognized compensation cost for actual forfeitures as they occur.

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9. Litigation

In fiscal 2015 Intuit was contacted by regulatory authorities, including Congress, the Federal Trade Commission, the SEC, the Department of Justice and certain state Attorneys General, which are conducting inquiries in connection with the increase during the 2015 tax season in attempts by criminals using stolen identity information to file fraudulent tax returns and claim refunds at the state and federal levels. Intuit is cooperating with all such government inquiries, including formal requests for information. In addition, we are the subject of certain actions, including a consolidated putative class action lawsuit by individuals who claim to have suffered damages in connection with the foregoing events. We believe that the allegations contained within these lawsuits are without merit, and we intend to vigorously defend against them.

Intuit is subject to certain routine legal proceedings, including class action lawsuits like those 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

We have defined 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: Our Small Business segment targets small businesses and the accounting professionals who serve and advise them. Our Small Business offerings include QuickBooks financial and business management online services and desktop software, payroll solutions, and payment processing solutions. They also include third-party applications that integrate with our offerings.

Consumer Tax: Our Consumer Tax segment targets consumers and includes TurboTax income tax preparation products and services and electronic tax filing services.

ProConnect: Our ProConnect segment targets professional accountants in the U.S. and Canada, who are essential to both small business success and doing the nations' taxes. Our ProConnect professional tax offerings include Lacerte, ProSeries, ProFile, and ProConnect Tax Online, electronic tax filing services, bank product transmission services, and training services.

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, and 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, 2016 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.

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The following table shows our financial results by reportable segment for the periods indicated. Results for all periods presented have been adjusted to exclude results for our Demandforce, QuickBase, and Quicken businesses, which we classified as discontinued operations in the fourth quarter of fiscal 2015 and sold during fiscal 2016. See Note 4, “Discontinued Operations,” for more information.

(In millions)	Three Months Ended October 31, 2016	October 31, 2015
Net revenue:		
Small Business	$606	$ 546
Consumer Tax	60	57
ProConnect	112	110
Total net revenue	$778	$ 713
Operating income (loss) from continuing operations:		
Small Business	$240	$ 216
Consumer Tax	(39)	(28)
ProConnect	70	72
Total segment operating income	271	260
Unallocated corporate items:		
Share-based compensation expense	(89)	(67)
Other common expenses	(239)	(214)
Amortization of acquired technology	(3)	(6)
Amortization of other acquired intangible assets	(1)	(2)
Total unallocated corporate items	(332)	(289)
Total operating loss from continuing operations	$(61)	$ (29)

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

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

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

You should note that this MD&A discussion contains forward-looking statements that involve risks and uncertainties. Please see Item 1A in Part II of this Quarterly Report on Form 10-Q for important information to consider when evaluating such statements.

You should read this MD&A in conjunction with the financial statements and related notes in Part I, Item 1 of this Quarterly Report and our Annual Report on Form 10-K for the fiscal year ended July 31, 2016. In the third quarter of fiscal 2016 we completed the sales of our Demandforce, QuickBase, and Quicken businesses. We have reclassified our statements of operations for all periods presented to reflect these businesses as discontinued operations. Because the cash flows of these discontinued operations were not material for any period presented, we have not segregated them on our statements of cash flows. See "Results of Operations – Discontinued Operations" later in this Item 2 for more information. Unless otherwise noted, the following discussion pertains only to our continuing operations.

Executive Overview

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

About Intuit

Intuit creates business and financial management solutions that help simplify the business of life for small businesses, consumers, and accounting professionals. We organize our businesses into three reportable segments – Small Business, Consumer Tax, and ProConnect.

Small Business: This segment targets small businesses and the accounting professionals who serve and advise them. Our Small Business offerings include QuickBooks financial and business management online services and desktop software, payroll solutions, and payment processing solutions. They also include third-party applications that integrate with our offerings.

Consumer Tax: This segment targets consumers and includes TurboTax income tax preparation products and services.

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

Our Growth Strategy

Our assessment of key technology and demographic trends – an increasingly borderless world, the prevalence of mobile devices, and the scalability of the cloud – reveals significant opportunities to drive future growth by continuing to solve

the unmet needs of small businesses, consumers, and accounting professionals. Our evolving growth strategy includes three key elements:

- Focus on the product – we call it “Delivering awesome product experiences.” As computers have moved to the palm of our hands in the form of tablets and smart phones, so have our products and services. Our TurboTax solutions, for

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example, let customers prepare and file their entire tax returns online, via tablet, mobile phone, or computer. A key factor in growing our customer base is to deliver an amazing first-use experience so our customers can get the value they expect from our offerings as quickly and easily as possible.

- Creating network effect platforms – we call it “Enabling the contributions of others.” We expect to solve our customers' problems faster and more efficiently by moving to more open platforms with application programming interfaces that integrate the contributions of end users and third-party developers. One example of this is our QuickBooks Online Ecosystem, where small businesses and accountants around the world can install apps created by third-party developers to create an experience that is personalized and configured for their specific needs.

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

Industry Trends and Seasonality

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

Key Challenges and Risks

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

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

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 and Risk Factors" in Item 1A of this Quarterly Report.

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Overview of Financial Results

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 $3.4 billion or 73% of our total revenue in fiscal 2016, compared with about 50% of our total revenue eight years ago. We expect connected services revenue as a percentage of our total revenue to continue to grow in the future.

Total net revenue for the first three months of fiscal 2017 was $778 million, an increase of 9% compared with the same period of fiscal 2016. Total net revenue results were affected by the fiscal 2015 changes that we made to our desktop software offerings. Starting with the release of QuickBooks 2015 in the first quarter of fiscal 2015, and for all subsequent versions, we began delivering ongoing enhancements and certain connected services for our QuickBooks desktop software products. We plan to continue to provide ongoing enhancements and certain connected services for all future versions of these products. As a result of these changes, we recognize revenue for these QuickBooks desktop software products as services are provided over approximately three years. Revenue in our Small Business segment grew 11% in the first three months of fiscal 2017 compared with the same period of fiscal 2016 due to growth in Small Business Online Ecosystem revenue and the impact of the changes to our QuickBooks Desktop software products. Revenue in our Consumer Tax and ProConnect segments was seasonally light.

Operating loss from continuing operations for the first three months of fiscal 2017 increased 110% compared with the same period of fiscal 2016 primarily due to higher costs and expenses, including higher spending for staffing, advertising and other marketing programs, and share-based compensation.

Net loss from continuing operations for the first three months of fiscal 2017 decreased 3% compared with the same period of fiscal 2016 due to a higher effective tax rate in the fiscal 2017 period, which more than offset the increase in operating loss. Diluted net loss per share from continuing operations for the first three months of fiscal 2017 increased 9% to $0.12 as a result of the change in the net loss and the decline in weighted average diluted common shares compared with the same period of fiscal 2016.

We ended the first three months of fiscal 2017 with cash, cash equivalents and investments totaling $605 million. During the first three months of fiscal 2017 we generated cash from net sales of investments, borrowings under our revolving credit facility, and the issuance of common stock under employee stock plans. During the same period we used cash for operations, the repurchase of shares of our common stock under our stock repurchase programs, the payment of cash dividends, and capital expenditures. At October 31, 2016, we had authorization from our Board of Directors to expend up to an additional $2.2 billion for stock repurchases.

Critical Accounting Policies and Estimates

In preparing our financial statements, we make estimates, assumptions and judgments that can have a significant impact on our net revenue, operating income or loss, and net income or loss, as well as on the value of certain assets and liabilities on our balance sheet. We believe that the estimates, assumptions and judgments involved in the accounting policies described in Management’s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of our Annual Report on Form 10-K for the fiscal year ended July 31, 2016 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 three months of fiscal 2017. 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.

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Results of Operations

Financial Overview

(Dollars in millions, except per share amounts)	Q1 FY17	Q1 FY16	$ Change	% Change
Total net revenue	$778	$713	$65	9 %
Operating loss from continuing operations	(61)	(29)	(32)	110 %
Net loss from continuing operations	(30)	(31)	1	(3)%
Basic and diluted net loss per share from continuing operations	$(0.12)	$(0.11)	$(0.01)	9 %

Total net revenue for the first quarter of fiscal 2017 increased $65 million or 9% compared with the same period of fiscal 2016. Total net revenue results were affected by the fiscal 2015 changes that we made to our desktop software offerings described in "Executive Overview – Overview of Financial Results" above. Revenue in our Small Business segment grew 11% in the first three months of fiscal 2017 due to growth in Small Business Online Ecosystem revenue and the impact of the changes to our QuickBooks desktop software products. Revenue in our Consumer Tax and ProConnect segments was seasonally light. See "Segment Results" later in this Item 2 for more information about the results for all of our reportable segments.

Operating loss from continuing operations for the first three months of fiscal 2017 increased 110% compared with the same period of fiscal 2016 primarily due to higher costs and expenses, including higher spending for staffing, advertising and other marketing programs, and share-based compensation. See "Operating Expenses" later in this Item 2 for more information.

Net loss from continuing operations for the first three months of fiscal 2017 decreased 3% compared with the same period of fiscal 2016 due to a higher effective tax rate in the fiscal 2017 period, which was driven by our early adoption of ASU 2016-09. The higher effective tax rate more than offset the increase in operating loss. See "Non-Operating Income and Expenses – Income Taxes" later in this Item 2 for more information. Diluted net loss per share from continuing operations for the first three months of fiscal 2017 increased 9% to $0.12 as a result of the change in the net loss and the decline in weighted average diluted common shares compared with the same quarter of fiscal 2016.

Segment Results

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, and general and administrative expenses and share-based compensation expenses, which are not allocated to specific segments. These unallocated costs totaled $328 million in the first three months of fiscal 2017 and $281 million in the first three months of fiscal 2016. Unallocated costs increased in the fiscal 2017 period due to increases in corporate product development and selling and marketing expenses in support of the growth of our businesses and due to 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.

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Small Business

(Dollars in millions)	Q1 FY17	Q1 FY16	% Change
Product revenue	$188	$166	13 %
Service and other revenue	418	380	10 %
Total segment revenue	$606	$546	11 %
% of total revenue	78 %	77 %	
Segment operating income	$240	$216	11 %
% of related revenue	40 %	40 %	

Product revenue in our Small Business segment is derived primarily from QuickBooks Desktop software products, including QuickBooks Desktop Pro, QuickBooks Desktop for Mac, QuickBooks Desktop Premier, and QuickBooks 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 in our Small Business segment 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 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.

Small Business segment total net revenue increased $60 million or 11% in the first quarter of fiscal 2017 compared with the same quarter of fiscal 2016. Small Business segment revenue growth was affected by the fiscal 2015 changes to our QuickBooks desktop offerings described in “Executive Overview – Overview of Financial Results” above. Small Business Online Ecosystem revenue grew 26%, driven by customer acquisition. QuickBooks Online subscribers grew 41% and online payroll customers grew 24%. Active online payments customers grew 5% and online payments charge volume grew 13%. In our Small Business Desktop Ecosystem revenue increased 6%. QuickBooks desktop revenue increased 76% due to 23% higher unit sales and the impact of the fiscal 2015 changes to our QuickBooks desktop offerings. Unusually high renewals from existing QuickBooks Desktop customers were driven by operating systems upgrades. QuickBooks Enterprise revenue grew 21%. Desktop payments revenue decreased 14% during the first three months of fiscal 2017 as we focused resources on core offerings for QuickBooks merchants and deemphasized certain non-QuickBooks payments offerings.

Small Business segment operating income as a percentage of related revenue was flat in the first quarter of fiscal 2017 compared with the same quarter of fiscal 2016. Higher revenue was partially offset by higher costs and expenses, including higher spending for advertising and other marketing programs.

Consumer Tax

(Dollars in millions)	Q1 FY17	Q1 FY16	% Change
Product revenue	$11	$10	12 %
Service and other revenue	49	47	4 %
Total segment revenue	$60	$57	6 %
% of total revenue	8 %	8 %	
Segment operating loss	$(39)	$(28)	39 %
% of related revenue	(65)%	(49)%	

Consumer Tax segment product revenue is derived primarily from TurboTax desktop tax return preparation software. Consumer Tax segment service and other revenue is derived primarily from TurboTax Online tax return preparation services and electronic tax filing services.

Due to the seasonal nature of our Consumer Tax offerings, we typically generate nominal revenue from consumer tax products and services in our first fiscal quarter compared with our second and third fiscal quarters. The majority of Consumer Tax segment revenue for the first quarter of each fiscal year is for the filing of extended returns for the

previous tax year. Consumer segment total net revenue increased $3 million or 6% in the first quarter of fiscal 2017 compared with the same quarter of fiscal 2016. Because of the seasonality of our Consumer Tax revenue, we do not believe that first fiscal quarter revenue in our

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Consumer Tax segment is indicative of revenue trends for the current fiscal year. We will not have substantially complete results for the 2016 tax season until the third quarter of fiscal 2017.

In our first fiscal quarter our Consumer Tax segment typically generates operating losses because Consumer Tax revenue is nominal while segment operating expenses for functions such as research and development continue at relatively consistent levels. We do not believe that Consumer Tax segment operating results for the first quarter of fiscal 2017 compared with the same quarter of fiscal 2016 are indicative of trends for the full fiscal year.

ProConnect

(Dollars in millions)	Q1 FY17	Q1 FY16	% Change
Product revenue	$98	$95	3 %
Service and other revenue	14	15	(10)%
Total segment revenue	$112	$110	1 %
% of total revenue	14 %	15 %	
Segment operating income	$70	$72	(3)%
% of related revenue	62 %	65 %	

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

This segment targets professional accountants in the U.S. and Canada, who are essential to both small business success and doing the nations' taxes. During fiscal 2017 we expect to expand our emphasis on the value that professional accountants bring to small businesses and focus less on growing our ProConnect revenue through price increases. We expect that this will result in slower ProConnect revenue growth in fiscal 2017 than we have experienced historically.

ProConnect total net revenue increased $2 million or 1% in the first quarter of fiscal 2017 compared with the same quarter of fiscal 2016. ProConnect segment operating income as a percentage of related revenue decreased in the first three months of fiscal 2017 compared with the same period of fiscal 2016 due to higher spending for staffing expenses.

Cost of Revenue

(Dollars in millions)	Q1 FY17	% of Related Revenue	Q1 FY16	% of Related Revenue
Cost of product revenue	$29	10 %	$29	11 %
Cost of service and other revenue	151	31 %	131	30 %
Amortization of acquired technology	3	n/a	6	n/a
Total cost of revenue	$183	24 %	$166	23 %

Operating Expenses

(Dollars in millions)	Q1 FY17	% of Total Net Revenue	Q1 FY16	% of Total Net Revenue
Selling and marketing	$283	36 %	$244	34 %
Research and development	246	32 %	213	30 %
General and administrative	126	16 %	117	17 %
Amortization of other acquired intangible assets	1	— %	2	— %
Total operating expenses	$656	84 %	$576	81 %

Total operating expenses as a percentage of total net revenue increased to 84% in the first three months of fiscal 2017 from 81% in the same period of fiscal 2016. Total net revenue for the first three months of fiscal 2017 increased $65

million or 9%

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and total operating expenses for that period increased $80 million. Operating expenses increased about $32 million for higher staffing expenses due to higher headcount, about $30 million for advertising and other marketing programs, and about $22 million for share-based compensation expenses. Share-based compensation expenses have been increasing over time because the market price of our common stock has generally been increasing.

Non-Operating Income and Expenses

Interest Expense

Interest expense of $9 million for the first three months of fiscal 2017 consisted primarily of interest on our senior notes and unsecured term loan. Interest expense of $7 million for the first three months of fiscal 2016 consisted primarily of interest on our senior notes. See Note 5 and Note 6 to the financial statements in Part I, Item 1 of this Quarterly Report for more information.

Interest and Other Income (Expense), Net

(In millions)	Three Months Ended October 31, 2016	October 31, 2015
Interest income	$ 1	$ —
Net loss on executive deferred compensation plan assets	(1)	(2)
Other	(2)	(2)
Total interest and other income (expense), net	$ (2)	$ (4)

Interest income in the first quarter of fiscal 2017 increased slightly compared with the same period of fiscal 2016 due to higher average interest rates partially offset by lower average invested balances. 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.

In December 2015 the Consolidated Appropriations Act, 2016 was signed into law. The Act includes a permanent reinstatement of the federal research and experimentation that was retroactive to January 1, 2015.

In the first quarter of fiscal 2017, we elected to early adopt ASU 2016-09, "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." This new standard requires excess tax benefits recognized on stock-based compensation expense to be reflected in the statements of operations as a component of the provision for income taxes on a prospective basis. See Note 1 to the financial statements in Part I, Item 1 of this Quarterly Report for more information.

Our effective tax rate for the first quarter of fiscal 2017 was approximately 58%. Excluding discrete tax items primarily related to share-based compensation tax benefits resulting from the adoption of ASU 2016-09, our effective tax rate for the period 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 1 of this Quarterly Report for more information.

Our effective tax rate for the first quarter of fiscal 2016 was approximately 22%. Excluding discrete tax items primarily related to share-based compensation as well as including the effects of losses in certain jurisdictions where we do not recognize a tax benefit, our effective tax rate for the period was approximately 36% and did not differ significantly from the federal statutory rate of 35%. See Note 7 to the financial statements in Part I, Item 1 of this Quarterly Report for more information.

Discontinued Operations

In the third quarter of fiscal 2016 we sold our Demandforce, QuickBase, and Quicken businesses for $463 million in cash. We recorded a pre-tax gain of $354 million and a net gain of $173 million on the disposal of these three businesses in fiscal 2016. We have reclassified our statements of operations for all periods presented to reflect these

businesses as discontinued operations. See Note 4 to the financial statements in Part I, Item 1 of this Quarterly Report for more information.

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Liquidity and Capital Resources

Overview

At October 31, 2016, our cash, cash equivalents and investments totaled $605 million, a decrease of $475 million from July 31, 2016 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 facilities. Our primary uses of cash have been for research and development programs, selling and marketing activities, capital projects, acquisitions of businesses, debt service costs, 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:

(Dollars in millions)	October 31, 2016	July 31, 2016	$ Change	% Change
Cash, cash equivalents, and investments	$ 605	$1,080	$(475)	(44)%
Long-term investments	28	28	—	— %
Short-term debt	625	512	113	22 %
Long-term debt	475	488	(13)	(3)%
Working capital (deficit)	(919)	(637)	(282)	44 %
Ratio of current assets to current liabilities	0.6 : 1	0.7 : 1		

We have historically generated significant cash from operations and we expect to continue to do so during the balance of fiscal 2017. Our cash, cash equivalents, and investments totaled $605 million at October 31, 2016, none of those funds were restricted, and approximately 70% 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 October 31, 2016, $100 million was outstanding under the revolving credit facility. See Note 5 to the financial statements in Part I, Item 1 of this Quarterly Report for more information.

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.

Statements of Cash Flows

The following table summarizes selected items from our statements of cash flows for the first three months of fiscal 2017 and fiscal 2016. See the financial statements in Part I, Item 1 of this Quarterly Report for complete statements of cash flows for those periods.

(Dollars in millions)	Three Months Ended October 31, 2016	October 31, 2015	$ Change
Net cash provided by (used in):			
Operating activities	$(205)	$ (188)	$ (17)
Investing activities	98	816	(718)
Financing activities	(166)	(961)	795
Effect of exchange rates on cash and cash equivalents	(5)	(1)	(4)
Net decrease in cash and cash equivalents	$(278)	$ (334)	$ 56

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During the first three months of fiscal 2017 we generated cash from net sales of investments, borrowings under our revolving credit facility, and the issuance of common stock under employee stock plans. During the same period we used cash for operations, including the payment of accrued bonuses for fiscal 2016, the repurchase of shares of our common stock under our stock repurchase programs, the payment of cash dividends, and capital expenditures.
During the first three months of fiscal 2016 we generated cash from net sales of investments, borrowings under our revolving credit facility, and the issuance of common stock under employee stock plans. During the same period we used cash for operations, including the payment of accrued bonuses for fiscal 2015, the repurchase of shares of our common stock under our stock repurchase programs, the payment of cash dividends, and capital expenditures.

Stock Repurchase Programs, Treasury Shares, and Dividends on Common Stock

As described in Note 8 to the financial statements in Part I, Item 1 of this Quarterly Report, during the first three months of fiscal 2017 we continued to repurchase shares of our common stock under repurchase programs that our Board of Directors has authorized. At October 31, 2016, we had authorization from our Board of Directors to expend up to an additional $2.2 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 three months of fiscal 2017 we also continued to pay quarterly cash dividends on shares of our outstanding common stock. In November 2016 our Board of Directors declared a quarterly cash dividend of $0.34 per share of outstanding common stock payable on January 18, 2017 to stockholders of record at the close of business on January 10, 2017. 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.

Credit Facilities

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 October 31, 2016, $100 million was 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 of 2.5% of the loan amount beginning in July 2017, with the balance payable on February 1, 2021. At October 31, 2016, $500 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 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 October 31, 2016.

Cash Held by Foreign Subsidiaries

Our cash, cash equivalents, and investments totaled $605 million at October 31, 2016. Of this amount, approximately 30% was held by our foreign subsidiaries and subject to repatriation tax considerations. These foreign funds were located primarily in Canada, India, and the United Kingdom. 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

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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 October 31, 2016, 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, 2016 in our Annual Report on Form 10-K for the fiscal year then ended. There were no significant changes to our contractual obligations during the first three months of fiscal 2017.

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.

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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 3 to the financial statements in Part I, Item 1 of this Quarterly Report for a summary of the 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 October 31, 2016, the value of our investments at that date would have decreased by approximately $1.1 million. If the Federal Reserve Target Rate had increased by 100 basis points from the level of October 31, 2016, the value of our investments at that date would have decreased by approximately $4.5 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 October 31, 2016, $100 million was outstanding under the revolving credit facility and $500 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.

On March 12, 2007 we issued $500 million of 5.75% senior unsecured notes due on March 15, 2017. We carry these senior notes at face value less unamortized discount on our balance sheets. Since these senior notes bear interest at fixed rates, we have no financial statement risk associated with changes in interest rates. However, the fair value of this debt fluctuates when interest rates change. See Note 5 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 October 31, 2016, we did not engage in foreign currency hedging activities.

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ITEM 4
CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Based upon an evaluation of the effectiveness of disclosure controls and procedures, Intuit's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures as defined under Exchange Act 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.

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

ITEM 1A
RISK FACTORS

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

- our expectations and beliefs regarding future conduct and growth of the business;
- our beliefs and expectations regarding seasonality, competition and other trends that affect our business;
- our expectation that we will solve problems faster and more efficiently for our growing base of customers by moving to more open platforms with application programming interfaces that enable the contributions of end users and third-party developers;
- our expectation that we will continue to invest significant resources in our product development, marketing and sales capabilities;
- 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 product rebate and return reserves; the collectability of accounts receivable; stock volatility and other assumptions used to estimate the fair value of share-based compensation; the fair value of goodwill; and expected future amortization of acquired intangible assets;
- our 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 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;

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- 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;
- our expectation that, during fiscal year 2017, we will expand our emphasis on the value that professional accountants bring to small businesses and focus less on growing our ProConnect revenue through price increases, and that this will result in slower ProConnect growth in fiscal 2017 than we have experienced historically;
- 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.

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

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

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

Our consumer tax business also faces significant competition from the public sector, where we face the risk of federal and state taxing authorities developing software or other systems to facilitate tax return preparation and electronic filing at no charge to taxpayers. These or similar programs may be introduced or expanded in the future, which may cause us to lose customers and revenue. Although the Free File Alliance has kept the federal government from being a direct competitor to Intuit's tax offerings, it has fostered additional online competition and may cause us to lose significant revenue opportunities. The current agreement with the Free File Alliance is scheduled to expire in October 2020. We anticipate that governmental encroachment at both the federal and state levels may present a continued competitive threat to our business for the foreseeable future.

Future revenue growth depends upon our ability to adapt to technological change 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 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. If we are not able to develop and clearly demonstrate the value of new or upgraded products or

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services to our customers, our revenues may be harmed. In addition, as we continue to introduce and expand our new business models, including offerings that are free to end users, we may be unsuccessful in monetizing or increasing customer adoption of these offerings.

The number of people who access products and services through devices other than personal computers, including mobile phones, smartphones, and handheld computers such as tablets, 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.

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

As we continue to transition our business to more connected services, we become more dependent on the continuing operation and availability of our information technology and communication systems and those of our external service providers, 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 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 TurboTax business 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 TurboTax business. 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.

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

We rely on internal systems and external systems maintained by manufacturers, distributors and other service providers to take and fulfill customer orders, handle customer service requests and host certain online activities. Any interruption or failure of our internal or external systems may prevent us or our service providers from accepting and fulfilling customer orders or cause company and customer data to be unintentionally disclosed. Our continuing efforts to upgrade and expand our network security

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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.

A security breach resulting in third-party access to our sensitive customer and employee information and data 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 and passwords, personal and business financial data and transactions, social security numbers, healthcare information and payroll information. We and our vendors 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 and personal customer information and data. However, such measures cannot provide absolute security, and 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. In addition, third parties may fraudulently induce employees, customers, or users to disclose sensitive information in order to gain access to our data or customers' 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 and may be difficult to detect for long periods of time, we may be unable to anticipate these techniques or implement adequate preventive measures. A major breach of our security measures or those of third parties that provide hosting services or have access to our sensitive and personal customer information may have serious negative consequences for our businesses, including 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.

Our technologies, systems, and networks and our customers' devices 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 breaches 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 otherwise disrupt our or our customers' or other third parties' business operations, and 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 across platforms, it is increasingly affecting our offerings because cybercriminals tend to focus their efforts on well-known offerings that are popular among customers, and we expect them to continue to do so. If these cybercriminals 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, which could lead to litigation with our customers, fines, penalties and other damages.

In addition, our employees, contractors, temporary and seasonal employees may have access to sensitive and personal information of our customers and employees. While we conduct background checks of our employees and these other individuals and limit access to systems and data, it is possible that one or more of these individuals may circumvent these controls, resulting in 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 and personal customer

or employee information and data.

Privacy and cybersecurity concerns relating to online offerings, including our offerings specifically, as well as the external environment generally, could 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,

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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 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. 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 develop, manage and maintain critical third-party business relationships, our business may be adversely affected.

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

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

We 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.

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 and healthcare (including, for example, the Affordable Care Act). Recent legal developments in the European Union have created compliance uncertainty and increased complexity regarding certain transfers of information from Europe to the U.S. In addition, governmental authorities around the world are considering a number of of legislative and

regulatory proposals concerning data protection. Due to the uncertain international environment, we could acquire additional compliance obligations that could cause us to incur costs or require us to change our business practices in a manner adverse to our business. 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. These regulatory changes could impose significant limitations, require changes to our business, require notification to customers or employees 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. For example, as

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our business continues to expand to new industry segments that may be more highly regulated for privacy and data security, and to countries outside the United States that have more strict data protection laws, our compliance requirements and costs may increase. We have incurred – and may continue to incur – significant expenses to comply with mandatory privacy and security standards and protocols imposed by law, regulation, industry standards or contractual obligations.

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.

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

Our operations process a significant volume and dollar value of transactions on a daily basis, especially in our payroll and payments businesses. Due to the size and volume of transactions that we handle, effective processing systems and controls are essential to ensure that transactions are handled appropriately. Despite our efforts, it is possible that we may make errors or that funds may be misappropriated due to fraud. The systems supporting our business are comprised of multiple technology platforms that are difficult to scale. If we are unable to effectively manage our systems and processes, 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.

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 consumer 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.

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

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allegation is uncertain and, regardless of outcome, any such claim, with or without merit, may be time consuming to defend, result in costly litigation, divert management's time and attention from our business, require us to stop selling, delay shipping or redesign our products, or require us to pay monetary damages for royalty or licensing fees, or to satisfy indemnification obligations that we have with some of our customers. Our failure to obtain necessary license or other rights, or litigation arising out of intellectual property claims may harm our business.

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

Many of our products and services include intellectual property of third parties, which we license under agreements that 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 to our offerings. Although we try to mitigate this risk and we may not be ultimately liable for any potential infringement, pending claims require us to use significant resources, require management attention and could result in loss of customers.

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

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

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

Policing unauthorized use and copying of our products is difficult, expensive, and time consuming. Current U.S. laws that prohibit copying give us only limited practical protection from software piracy and the laws of many other countries provide very little protection. We frequently encounter unauthorized copies of our software being sold through online marketplaces. Although we continue to evaluate and put in place technology solutions to attempt to lessen the impact of piracy and engage in efforts to educate consumers and public policy leaders on these issues and cooperate with industry groups in their efforts to combat piracy, we expect piracy to be a persistent problem that results in lost revenues and increased expenses.

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

Much of our future success depends on the continued service and availability of skilled personnel, including members of our executive team, and those in technical, marketing and staff positions. Experienced personnel in the software, mobile technologies, data 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. 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

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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 consumer 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 consumer 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.

Our Consumer Tax business is highly seasonal and our quarterly results could fluctuate significantly.

Our Consumer 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 consumer 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.

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 Part II, Item 1, “Legal Proceedings.”

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. 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.

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

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

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

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

- 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;
- 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.

If actual product returns exceed returns reserves, our future financial results may be harmed.

We ship more desktop software products to our distributors and retailers than we expect them to sell, in order to reduce the risk that distributors or retailers may run out of products. This is particularly true for our Consumer Tax products, which have a short selling season and for which returns occur primarily in our fiscal third and fourth quarters. Like many software companies that sell their products through distributors and retailers, we have historically accepted significant product returns. We establish reserves against revenue for product returns in our financial statements based on estimated returns and we closely monitor product sales and inventory in the retail channel in an

effort to maintain adequate reserves. In the past, returns have not differed

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significantly from these reserves. However, if we experience actual returns that significantly exceed reserves, it may result in lower net revenue.

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

Our future effective income tax rates may be favorably or unfavorably affected by unanticipated changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws or their interpretation. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. These continuous examinations may result in unforeseen tax-related liabilities, which may harm our future financial results.

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

Our acquisitions have resulted in significant expenses, including amortization and impairment of acquired technology and other acquired intangible assets, and impairment of goodwill. Total costs and expenses in these categories were $34 million in fiscal 2016; $339 million in fiscal 2015, of which $149 million was classified as discontinued operations; and $25 million in fiscal 2014. 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 October 31, 2016, we had $1.3 billion in goodwill and $39 million in net acquired intangible assets on our balance sheet, both of which may be subject to impairment charges in the future. New acquisitions, and any impairment of the value of acquired intangible assets, may have a significant negative impact on our future financial results.

Our acquisition and divestiture activities may disrupt our ongoing business, may involve increased expenses and may present risks not contemplated at the time of the transactions.

We have acquired and may continue to acquire companies, products and technologies that complement our strategic direction. Acquisitions involve significant risks and uncertainties, including:

- inability to successfully integrate the acquired technology, 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 and may require significant time and resources to improve;
- unidentified issues not discovered in our due diligence process, including product or service quality issues, intellectual property issues and legal contingencies;
- 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;

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- 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.

We have $1.1 billion in debt outstanding and may incur other debt in the future, which may adversely affect our financial condition and future financial results.

In fiscal 2007 we issued $500 million in senior unsecured notes due in March 2017. As the debt matures, we will have to expend significant resources to either repay or refinance these notes. If we decide to refinance the notes, we may be required to do so on different or less favorable terms or we may be unable to refinance the notes at all, both of which may adversely affect our financial condition.

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 October 31, 2016, $500 million was outstanding on the term loan and $100 million was 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.

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

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this content is not generated by us, claims of defamation or other injury may be made against us for that content. Any costs incurred as a result of this potential liability may harm our business.

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

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

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

Developing and maintaining awareness of our brands is critical to achieving widespread acceptance of our existing and future products and services and is an important element in attracting new customers. Adverse publicity (whether or not justified) relating to events or activities attributed to us, our employees or agents may tarnish our reputation and reduce the value of our brands. Damage to our reputation and loss of brand equity may reduce demand for our products and services and thus have an adverse effect on our future financial results, as well as require additional resources to rebuild our reputation and restore the value of the brands.

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ITEM 2
UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS
Stock repurchase activity during the three months ended October 31, 2016 was as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans
August 1, 2016 through August 31, 2016	30,000	$110.70	30,000	$2,356,841,992
September 1, 2016 through September 30, 2016	829,818	$109.56	829,818	$2,265,926,502
October 1, 2016 through October 31, 2016	900,000	$107.99	900,000	$2,168,736,078
Total	1,759,818	$108.78	1,759,818	

Note: All of the shares purchased as part of publicly announced plans during the three months ended October 31, 2016 were purchased under a plan we announced on May 19, 2015 under which we are authorized to repurchase up to $2 billion of our common stock from time to time over a four-year period ending on May 19, 2019. On August 19, 2016 our Board approved a new stock repurchase program under which we are authorized to repurchase up to an additional $2 billion of our common stock. At October 31, 2016, authorization from our Board of Directors to expend up to $2.2 billion remained available under these plans.

ITEM 6
EXHIBITS
See the Exhibit Index immediately following the signature page of this Quarterly Report on Form 10-Q.

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SIGNATURES

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

INTUIT INC.
(Registrant)

Date: November 18, 2016

By: /s/ R. NEIL WILLIAMS

R. Neil Williams
Executive Vice President and Chief Financial Officer
(Authorized Officer and Principal Financial Officer)

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EXHIBIT INDEX

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference
31.01	Certification of Chief Executive Officer	X	
31.02	Certification of Chief Financial Officer	X	
32.01*	Section 1350 Certification (Chief Executive Officer)	X	
32.02*	Section 1350 Certification (Chief Financial Officer)	X	
101.INS	XBRL Instance Document	X	
101.SCH	XBRL Taxonomy Extension Schema	X	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	X	
101.LAB	XBRL Taxonomy Extension Label Linkbase	X	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	X	
101.DEF	XBRL Taxonomy Extension Definition Linkbase	X	

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