INTUIT INC
Form 10-Q
February 19, 2015
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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 January 31, 2015
OR	
o	Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from ____________ to ____________ .

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

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes 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. 276,726,077 shares of Common Stock, $0.01 par value, were outstanding at February 17, 2015.

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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 January 31, 2015	Three Months Ended January 31, 2014	Six Months Ended January 31, 2015	Six Months Ended January 31, 2014
Net revenue:				
Product	$198	$287	$431	$516
Service and other	610	495	1,049	888
Total net revenue	808	782	1,480	1,404
Costs and expenses:				
Cost of revenue:				
Cost of product revenue	44	45	78	74
Cost of service and other revenue	153	125	284	233
Amortization of acquired technology	9	6	19	12
Selling and marketing	376	352	657	610
Research and development	200	186	400	362
General and administrative	118	109	242	227
Amortization of other acquired intangible assets	6	5	12	9
Total costs and expenses	906	828	1,692	1,527
Operating loss from continuing operations	(98)	(46)	(212)	(123)
Interest expense	(7)	(8)	(14)	(16)
Interest and other income, net	2	—	2	5
Loss before income taxes	(103)	(54)	(224)	(134)
Income tax benefit	(37)	(17)	(74)	(40)
Net loss from continuing operations	(66)	(37)	(150)	(94)
Net income from discontinued operations	—	—	—	46
Net loss	$(66)	$(37)	$(150)	$(48)
Basic net loss per share from continuing operations	$(0.23)	$(0.13)	$(0.53)	$(0.33)
Basic net income per share from discontinued operations	—	—	—	0.16
Basic net loss per share	$(0.23)	$(0.13)	$(0.53)	$(0.17)
Shares used in basic per share calculations	285	284	285	286
Diluted net loss per share from continuing operations	$(0.23)	$(0.13)	$(0.53)	$(0.33)
Diluted net income per share from discontinued operations	—	—	—	0.16
Diluted net loss per share	$(0.23)	$(0.13)	$(0.53)	$(0.17)
Shares used in diluted per share calculations	285	284	285	286
Cash dividends declared per common share	$0.25	$0.19	$0.50	$0.38

See accompanying notes.

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

(In millions)	Three Months Ended January 31, 2015	Three Months Ended January 31, 2014	Six Months Ended January 31, 2015	Six Months Ended January 31, 2014
Net loss	$(66)	$(37)	$(150)	$(48)
Other comprehensive income (loss), net of income taxes:				
Unrealized gains on available-for-sale debt securities	—	—	—	2
Unrealized losses on available-for-sale equity securities	—	(3)	—	(4)
Foreign currency translation losses	(15)	(6)	(20)	(8)
Total other comprehensive loss, net	(15)	(9)	(20)	(10)
Comprehensive loss	$(81)	$(46)	$(170)	$(58)

See accompanying notes.

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INTUIT INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	January 31, 2015	July 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$482	$849
Investments	885	1,065
Accounts receivable, net	459	134
Income taxes receivable	146	35
Deferred income taxes	149	133
Prepaid expenses and other current assets	103	116
Current assets before funds held for customers	2,224	2,332
Funds held for customers	354	289
Total current assets	2,578	2,621
Long-term investments	35	31
Property and equipment, net	643	606
Goodwill	1,688	1,635
Acquired intangible assets, net	187	199
Other assets	114	109
Total assets	$5,245	$5,201
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$273	$161
Accrued compensation and related liabilities	199	278
Deferred revenue	888	526
Other current liabilities	395	167
Current liabilities before customer fund deposits	1,755	1,132
Customer fund deposits	354	289
Total current liabilities	2,109	1,421
Long-term debt	499	499
Long-term deferred revenue	83	10
Other long-term obligations	200	193
Total liabilities	2,891	2,123
Commitments and contingencies		
Stockholders' equity:		
Preferred stock	—	—
Common stock and additional paid-in capital	3,822	3,561
Treasury stock, at cost	(7,098)	(6,430)
Accumulated other comprehensive loss	(22)	(2)
Retained earnings	5,652	5,949
Total stockholders' equity	2,354	3,078
Total liabilities and stockholders' equity	$5,245	$5,201

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, 2014	284,950	$3,561	$(6,430)	$(2)	$5,949	$3,078
Comprehensive loss	—	—	—	(20)	(150)	(170)
Issuance of stock under employee stock plans	3,463	101	—	—	—	101
Stock repurchases under stock repurchase programs	(7,473)	—	(668)	—	—	(668)
Dividends and dividend rights declared ($0.50 per share)	—	—	—	—	(147)	(147)
Tax benefit from share-based compensation plans	—	38	—	—	—	38
Share-based compensation expense	—	122	—	—	—	122
Balance at January 31, 2015	280,940	$3,822	$(7,098)	$(22)	$5,652	$2,354

(In millions, except shares in thousands)	Shares of Common Stock	Common Stock and Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
Balance at July 31, 2013	299,503	$3,201	$(4,952)	$ 20	$5,262	$3,531
Comprehensive loss	—	—	—	(10)	(48)	(58)
Issuance of stock under employee stock plans	4,188	33	100	—	—	133
Stock repurchases under stock repurchase programs	(20,178)	—	(1,402)	—	—	(1,402)
Dividends and dividend rights declared ($0.38 per share)	—	—	—	—	(111)	(111)
Tax benefit from share-based compensation plans	—	43	—	—	—	43
Share-based compensation expense	—	99	—	—	—	99
Balance at January 31, 2014	283,513	$3,376	$(6,254)	$ 10	$5,103	$2,235

See accompanying notes.

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

(In millions)	Six Months Ended January 31, 2015	January 31, 2014
Cash flows from operating activities:		
Net loss	$(150)	$(48)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	75	75
Amortization of acquired intangible assets	36	25
Share-based compensation expense	122	99
Pre-tax gain on sale of discontinued operations	—	(40)
Deferred income taxes	(16)	66
Tax benefit from share-based compensation plans	38	43
Excess tax benefit from share-based compensation plans	(38)	(43)
Other	19	11
Total adjustments	236	236
Changes in operating assets and liabilities:		
Accounts receivable	(327)	(308)
Income taxes receivable	(110)	(161)
Prepaid expenses and other assets	12	(29)
Accounts payable	116	88
Accrued compensation and related liabilities	(79)	(49)
Deferred revenue	439	326
Other liabilities	110	87
Total changes in operating assets and liabilities	161	(46)
Net cash provided by operating activities	247	142
Cash flows from investing activities:		
Purchases of available-for-sale debt securities	(619)	(320)
Sales of available-for-sale debt securities	458	145
Maturities of available-for-sale debt securities	328	147
Net change in money market funds and other cash equivalents held to satisfy customer fund obligations	(65)	(55)
Net change in customer fund deposits	65	55
Purchases of property and equipment	(116)	(93)
Acquisitions of businesses, net of cash acquired	(76)	(66)
Proceeds from divestiture of businesses	—	1,025
Other	(10)	(10)
Net cash provided by (used in) investing activities	(35)	828
Cash flows from financing activities:		
Net proceeds from issuance of stock under employee stock plans	101	125
Cash paid for purchases of treasury stock	(554)	(1,402)
Dividends and dividend rights paid	(143)	(111)
Excess tax benefit from share-based compensation plans	38	43
Net cash used in financing activities	(558)	(1,345)
Effect of exchange rates on cash and cash equivalents	(21)	(9)
Net decrease in cash and cash equivalents	(367)	(384)
Cash and cash equivalents at beginning of period	849	1,009

Cash and cash equivalents at end of period	$482	$625

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, TurboTax, Quicken and Mint, we help customers solve important business and financial management problems such as running a small business, paying bills, filing income tax returns, and managing personal finances. 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.

On June 16, 2014 we acquired Check Inc. (now known as Mint Bills). We have included the results of operations for this company in our consolidated results of operations from the date of acquisition.

As discussed in Note 4, we sold our Intuit Financial Services (IFS) and Intuit Health businesses in August 2013. We have reclassified our statements of operations for all periods presented to reflect these two businesses as discontinued operations. Because the cash flows of our IFS and Intuit Health discontinued operations were not material for any period presented, we have not segregated the cash flows of those businesses from continuing operations 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, 2014. Results for the six months ended January 31, 2015 do not necessarily indicate the results we expect for the fiscal year ending July 31, 2015 or any other future period.

Seasonality

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

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, 2014. See the discussion of changes to our policy for recognizing product revenue below. There have been no other changes to our significant accounting policies during the first six months of fiscal 2015.

Revenue Recognition - Product Revenue

Prior to fiscal 2015, we recognized revenue from the sale of our packaged software products when legal title transferred. This was generally when our customers downloaded products from the Web, when we shipped the products or, in the case of certain agreements, when products were delivered to retailers. Beginning in fiscal 2015, we began delivering ongoing releases for our future QuickBooks and Quicken desktop products and for our future Professional Tax solutions. As a result, revenue for these QuickBooks and Quicken offerings will be recognized as services are provided over approximately three years and revenue for our Professional Tax solutions will be recognized as services are provided over the tax year.

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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.

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

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 January 31, 2015	Three Months Ended January 31, 2014	Six Months Ended January 31, 2015	Six Months Ended January 31, 2014
Numerator:				
Net loss from continuing operations	$(66)	$(37)	$(150)	$(94)
Net income from discontinued operations	—	—	—	46
Net loss	$(66)	$(37)	$(150)	$(48)
Denominator:				
Shares used in basic per share amounts:				
Weighted average common shares outstanding	285	284	285	286
Shares used in diluted per share amounts:				
Weighted average common shares outstanding	285	284	285	286
Dilutive common equivalent shares from stock options and restricted stock awards	—	—	—	—
Dilutive weighted average common shares outstanding	285	284	285	286
Basic and diluted net loss per share:				
Basic net loss per share from continuing operations	$(0.23)	$(0.13)	$(0.53)	$(0.33)
Basic net income per share from discontinued operations	—	—	—	0.16
Basic net loss per share	$(0.23)	$(0.13)	$(0.53)	$(0.17)
Diluted net loss per share from continuing operations	$(0.23)	$(0.13)	$(0.53)	$(0.33)
Diluted net income per share from discontinued operations	—	—	—	0.16
Diluted net loss per share	$(0.23)	$(0.13)	$(0.53)	$(0.17)
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	14	19	15	17
Weighted average stock options and restricted stock units excluded from computation due to anti-dilutive effect	2	—	2	3

Concentration of Credit Risk and Significant Customers

No customer accounted for 10% or more of total net revenue in the three or six months ended January 31, 2015 or January 31, 2014. Due to the seasonality of our small business, consumer tax and personal finance offerings, one retail customer accounted for 18% of gross accounts receivable at January 31, 2015. No customer accounted for 10% or more of gross accounts receivable at July 31, 2014.

Recent Accounting Pronouncements

ASU 2014-08, “Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity”

In April 2014 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-08, “Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.” This update raises the threshold for a disposal to qualify

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as a discontinued operation and requires new disclosures for discontinued operations and disposals that do not meet the definition of a discontinued operation. ASU 2014-08 is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2014, which means that it will be effective for us in the first quarter of our fiscal year beginning August 1, 2015.

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

In May 2014 the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” This update supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 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. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible that more judgment and estimates may be required within the revenue recognition process than is required under present U.S. GAAP. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price, and allocating the transaction price to each separate performance obligation. The new standard also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. ASU 2014-09 is effective for reporting periods beginning after December 15, 2016, which means that it will be effective for us in the first quarter of our fiscal year beginning August 1, 2017. Early adoption is not permitted under U.S. GAAP. ASU 2014-09 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 ASU 2014-09 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.

2. Fair Value Measurements

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

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

- Level 1 uses unadjusted quoted prices that are available in active markets for identical assets or liabilities.
- Level 2 uses inputs other than quoted prices included in Level 1 that are either directly or indirectly observable through correlation with market data. These include quoted prices in active markets for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs to valuation models or other pricing methodologies that do not require significant judgment because the inputs used in the model, such as interest rates and volatility, can be corroborated by readily observable market data for substantially the full term of the assets or liabilities.
- Level 3 uses one or more significant inputs that are supported by little or no market activity and that are significant to the determination of fair value. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques and significant management judgment or estimation.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	January 31, 2015				July 31, 2014			
(In millions)	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	$359	$—	$—	$359	$652	$—	$—	$652
Available-for-sale debt securities:								
Municipal bonds	—	474	—	474	—	701	—	701
Corporate notes	—	581	—	581	—	466	—	466
U.S. agency securities	—	5	—	5	—	42	—	42
Municipal auction rate securities	—	—	21	21	—	—	21	21
Total available-for-sale securities	—	1,060	21	1,081	—	1,209	21	1,230
Total assets measured at fair value on a recurring basis	$359	$1,060	$21	$1,440	$652	$1,209	$21	$1,882
Liabilities:								
Senior notes (1)	$—	$544	$—	$544	$—	$556	$—	$556

(1) Carrying value on our balance sheet at January 31, 2015 was $499 million and at July 31, 2014 was $499 million. See Note 6.

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.

	January 31, 2015				July 31, 2014			
(In millions)	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	$180	$—	$—	$180	$507	$—	$—	$507
In funds held for customers	179	—	—	179	145	—	—	145
Total cash equivalents	$359	$—	$—	$359	$652	$—	$—	$652
Available-for-sale securities:								
In investments	$—	$885	$—	$885	$—	$1,065	$—	$1,065
In funds held for customers	—	175	—	175	—	144	—	144
In long-term investments	—	—	21	21	—	—	21	21
Total available-for-sale securities	$—	$1,060	$21	$1,081	$—	$1,209	$21	$1,230

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 debt. See Note 6, “Long-Term Obligations,” 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 these 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 six months ended January 31, 2015.

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 January 31, 2015 consist of available-for-sale investment-grade debt securities that we carry 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. Long-term investments at January 31, 2015 consist primarily of municipal auction rate securities. See Note 2, “Fair Value Measurements,” for more information. 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.

	January 31, 2015		July 31, 2014	
(In millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Classification on balance sheets:				
Cash and cash equivalents	$482	$482	$849	$849
Investments	884	885	1,064	1,065
Funds held for customers	354	354	289	289
Long-term investments	35	35	31	31
Total cash and cash equivalents, investments, and funds held for customers	$1,755	$1,756	$2,233	$2,234

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The following table summarizes our cash and cash equivalents, investments, and funds held for customers by investment category at the dates indicated. See Note 2, “Fair Value Measurements,” for more information on our municipal auction rate securities.

(In millions)	January 31, 2015 Amortized Cost	January 31, 2015 Fair Value	July 31, 2014 Amortized Cost	July 31, 2014 Fair Value
Type of issue:				
Total cash and cash equivalents	$661	$661	$994	$994
Available-for-sale debt securities:				
Municipal bonds	474	474	700	701
Corporate notes	580	581	466	466
U.S. agency securities	5	5	42	42
Municipal auction rate securities	21	21	21	21
Total available-for-sale debt securities	1,080	1,081	1,229	1,230
Other long-term investments	14	14	10	10
Total cash and cash equivalents, investments, and funds held for customers	$1,755	$1,756	$2,233	$2,234

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, net in our statements of operations. Gross realized gains and losses on our available-for-sale debt securities for the three and six months ended January 31, 2015 and January 31, 2014 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 January 31, 2015 and July 31, 2014 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 January 31, 2015 were not other-than-temporarily impaired. Unrealized losses on available-for-sale debt securities at January 31, 2015 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.

(In millions)	January 31, 2015 Amortized Cost	January 31, 2015 Fair Value	July 31, 2014 Amortized Cost	July 31, 2014 Fair Value
Due within one year	$364	$365	$363	$363
Due within two years	408	408	443	443
Due within three years	261	261	303	303
Due after three years	47	47	120	121
Total available-for-sale debt securities	$1,080	$1,081	$1,229	$1,230

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.

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4. Discontinued Operations

Intuit Financial Services

On August 1, 2013 we completed the sale of our Intuit Financial Services (IFS) business for approximately $1.025 billion in cash. We recorded a $44 million pre-tax gain on the disposal of IFS that was partially offset by a related income tax provision of approximately $8 million, resulting in a net gain on disposal of approximately $36 million in the first quarter of fiscal 2014. The IFS business comprised substantially all of our former Financial Services reportable segment.

We classified our IFS business as discontinued operations and have therefore segregated its operating results from continuing operations in our statements of operations for all periods presented. Because operating cash flows from the IFS business were not material for any period presented, we have not segregated them from continuing operations on our statements of cash flows.

Intuit Health

On August 19, 2013 we completed the sale of our Intuit Health business for cash consideration that was not significant. We recorded a $4 million pre-tax loss on the disposal of Intuit Health that was more than offset by a related income tax benefit of approximately $14 million, resulting in a net gain on disposal of approximately $10 million in the first quarter of fiscal 2014. Intuit Health was part of our former Other Businesses reportable segment.

We classified our Intuit Health business as discontinued operations and have therefore segregated its operating results in our statements of operations for all periods presented. Because operating cash flows from the Intuit Health business were not material for any period presented, we have not segregated them from continuing operations on our statements of cash flows.

5. Current Liabilities

Unsecured Revolving Credit Facility

On February 17, 2012 we entered into an agreement with certain institutional lenders for a $500 million unsecured revolving credit facility that will expire on February 17, 2017. Advances under the credit facility will accrue interest at rates that are equal to, at our election, either JP Morgan's alternate base rate plus a margin that ranges from 0.0% to 0.5% or 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 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 interest payable 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 January 31, 2015. We may use amounts borrowed under this credit facility for general corporate purposes, including future acquisitions. To date we have not borrowed under this credit facility.

Other Current Liabilities

Other current liabilities were as follows at the dates indicated:

(In millions)	January 31, 2015	July 31, 2014
Reserve for product returns	$59	$24
Reserve for rebates	79	23
Current portion of license fee payable	10	10
Current portion of deferred rent	8	7
Interest payable	10	10
Executive deferred compensation plan liabilities	64	63
Amounts due for share repurchases	114	—
Other	51	30
Total other current liabilities	$395	$167

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. Amounts due for share repurchases are for transactions that occurred in late January 2015 and were settled in early February 2015. See Note 8, “Stockholders' Equity,” for more information.

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6. Long-Term Obligations

Long-Term Debt

On March 12, 2007 we issued $500 million of 5.75% senior unsecured notes due on March 15, 2017 (the Notes). We carried the Notes at face value less the unamortized discount in long-term debt on our balance sheets at January 31, 2015 and July 31, 2014. 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. 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 six months ended January 31, 2015 and $14 million in cash for interest on the Notes during the six months ended January 31, 2014.

Other Long-Term Obligations

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

(In millions)	January 31, 2015	July 31, 2014
Total deferred rent	$60	$62
Total license fee payable	43	41
Long-term income tax liabilities	37	32
Long-term deferred income tax liabilities	59	61
Other	21	14
Total long-term obligations	220	210
Less current portion (included in other current liabilities)	(20)	(17)
Long-term obligations due after one year	$200	$193

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, 2014. There were no significant changes in those commitments during the first six months of fiscal 2015.

7. Income Taxes

Effective Tax Rate

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

In December 2014 the Tax Increase Prevention Act of 2014 was signed into law. The Act includes a reinstatement of the federal research and experimentation credit through December 31, 2014 that was retroactive to January 1, 2014. We recorded a discrete tax benefit of approximately $11 million for the retroactive effect during the three and six months ended January 31, 2015.

Our effective tax rates for the three and six months ended January 31, 2015 were approximately 36% and 33%. Excluding discrete tax items primarily related to the reinstatement of the federal research and experimentation credit, as well as including the effects of losses in certain jurisdictions where we do not recognize a tax benefit, our effective tax rate for those periods was approximately 36% and did not differ significantly from the federal statutory rate of 35%. Tax expense related to 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 and the federal research and experimentation credit.

Our effective tax rates for the three and six months ended January 31, 2014 were approximately 31% and 30%. Excluding the impact of discrete tax items primarily related to share-based compensation, our effective tax rate for those periods was approximately 34% and did not differ significantly from the federal statutory rate of 35%. The benefit we received from the domestic production activities deduction and the federal research and experimentation credit were substantially offset by tax expense related to state income taxes.

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Unrecognized Tax Benefits and Other Considerations

The total amount of our unrecognized tax benefits at July 31, 2014 was $40 million. Net of related deferred tax assets, unrecognized tax benefits were $26 million at that date. If we were to recognize these net benefits, our income tax expense would reflect a favorable net impact of $26 million. There were no material changes to these amounts during the six months ended January 31, 2015. 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 7.5 million shares for $668 million under these programs during the six months ended January 31, 2015. Included in this amount were $114 million of repurchases which occurred in late January 2015 and were settled in early February 2015. We repurchased 20.2 million shares for $1.4 billion under these programs during the six months ended January 31, 2014. At January 31, 2015, we had authorization from our Board of Directors to expend up to an additional $1.2 billion for stock repurchases through August 19, 2017. 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.

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 six months ended January 31, 2015 we declared and paid quarterly cash dividends that totaled $0.50 per share of outstanding common stock or $147 million. In February 2015 our Board of Directors declared a quarterly cash dividend of $0.25 per share of outstanding common stock payable on April 20, 2015 to stockholders of record at the close of business on April 10, 2015. Future declarations of dividends and the establishment of future record dates and payment dates are subject to the final determination of our Board of Directors.

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Share-Based Compensation Expense

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

(In millions, except per share amounts)	Three Months Ended January 31, 2015	Three Months Ended January 31, 2014	Six Months Ended January 31, 2015	Six Months Ended January 31, 2014
Cost of revenue	$2	$2	$4	$4
Selling and marketing	18	16	36	31
Research and development	20	16	40	30
General and administrative	21	18	42	34
Total share-based compensation expense	61	52	122	99
Income tax benefit	(19)	(16)	(38)	(32)
Increase in net loss from continuing operations	$42	$36	$84	$67
Increase in net loss per share:				
Basic	$0.15	$0.13	$0.29	$0.23
Diluted	$0.15	$0.13	$0.29	$0.23

Share-Based Awards Available for Grant

A summary of share-based awards available for grant under our 2005 Equity Incentive Plan for the six months ended January 31, 2015 was as follows:

(Shares in thousands)	Shares Available for Grant
Balance at July 31, 2014	24,203
Options granted	—
Restricted stock units granted (1)	(1,117)
Share-based awards canceled/forfeited/expired (1)(2)	2,262
Balance at January 31, 2015	25,348

(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.

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Stock Option Activity and Related Share-Based Compensation Expense

A summary of stock option activity for the six months ended January 31, 2015 was as follows:

(Shares in thousands)	Options Outstanding Number of Shares	Weighted Average Exercise Price Per Share
Balance at July 31, 2014	10,938	$52.67
Options granted	—	—
Options exercised	(2,316)	43.47
Options canceled or expired	(383)	64.32
Balance at January 31, 2015	8,239	$54.72
Exercisable at January 31, 2015	4,360	$41.95

At January 31, 2015, there was approximately $51 million of unrecognized compensation cost related to non-vested stock options that we expect to recognize as expense in the future. We will adjust unrecognized compensation cost for future changes in estimated forfeitures. We expect to recognize that cost over a weighted average vesting period of 2.2 years.

Restricted Stock Unit Activity and Related Share-Based Compensation Expense

A summary of restricted stock unit activity for the six months ended January 31, 2015 was as follows:

(Shares in thousands)	Restricted Stock Units Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at July 31, 2014	9,455	$62.46
Granted	486	85.99
Restricted stock units assumed or granted in connection with acquisitions	212	92.64
Vested	(1,114)	62.40
Forfeited	(833)	58.70
Nonvested at January 31, 2015	8,206	$65.02

At January 31, 2015, there was approximately $333 million of unrecognized compensation cost related to non-vested RSUs that we expect to recognize as expense in the future. We will adjust unrecognized compensation cost for future changes in estimated forfeitures. We expect to recognize that cost over a weighted average vesting period of 2.1 years.

9. Litigation

Intuit is subject to certain routine legal proceedings, as well as demands, claims and threatened litigation, that arise in the normal course of our business, including assertions that we may be infringing patents or other intellectual property rights of others. We currently believe that, in addition to any amounts accrued, the amount of potential losses, if any, for any pending claims of any type (either alone or combined) will not have a material impact on our consolidated financial statements. The 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.

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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 includes the following offerings, which target small businesses and the accounting professionals who serve them.

- QuickBooks financial and business management online services and desktop software; QuickBooks technical support; and financial supplies.
- QuickBooks Accountant, QuickBooks Accountant Plus, and QuickBooks Online Accountant as well as the QuickBooks ProAdvisor Program and Cloud ProAdvisor Program, all of which are intended for the accounting professionals who serve small businesses.
- Small business payroll products and services, including online payroll offerings such as Quickbooks Online Payroll and Intuit Online Payroll; desktop payroll offerings such as QuickBooks Basic Payroll and QuickBooks Enhanced Payroll; and full service payroll offerings such as Intuit Full Service Payroll and QuickBooks Assisted Payroll.
- Payment processing services for small businesses, including merchant services such as credit and debit card processing; Web-based transaction processing services for online merchants; secure online payments for small businesses and their customers through the Intuit Commerce Network; GoPayment mobile payment processing services; and QuickBooks Point of Sale solutions.
- Demandforce, which provides online marketing and customer communication solutions for small businesses, and QuickBase.

Consumer. Our Consumer segment includes two product lines – Consumer Tax and Consumer Ecosystem – both of which target consumers.

- Consumer Tax includes TurboTax income tax preparation products and services and electronic tax filing services.
- Consumer Ecosystem includes our personal finance offerings, Quicken, Mint and Mint Bills (formerly known as Check).

Professional Tax. Our Professional Tax segment targets professional accountants and includes Lacerte, ProSeries, and Intuit Tax Online professional tax preparation products and services, 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 6% of consolidated total net revenue for all periods presented.

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

The accounting policies of our reportable segments are the same as those described in the summary of significant accounting policies in Note 1 to the financial statements in Item 8 of our Annual Report on Form 10-K for the fiscal year ended July 31, 2014 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 exclude results for our Intuit Financial Services and Intuit Health businesses. See Note 4, “Discontinued Operations,” for more information.

(In millions)	Three Months Ended January 31, 2015	Three Months Ended January 31, 2014	Six Months Ended January 31, 2015	Six Months Ended January 31, 2014
Net revenue:				
Small Business segment	$553	$560	$1,101	$1,080
Consumer segment:				
Consumer Tax	213	138	270	180
Consumer Ecosystem	31	49	62	84
Total Consumer segment	244	187	332	264
Professional Tax segment	11	35	47	60
Total net revenue	$808	$782	$1,480	$1,404
Operating loss from continuing operations:				
Small Business segment	$172	$197	$364	$387
Consumer segment	26	(3)	(8)	(27)
Professional Tax segment	(37)	(9)	(40)	(18)
Total segment operating income	161	185	316	342
Unallocated corporate items:				
Share-based compensation expense	(61)	(52)	(122)	(99)
Other common expenses	(183)	(168)	(375)	(345)
Amortization of acquired technology	(9)	(6)	(19)	(12)
Amortization of other acquired intangible assets	(6)	(5)	(12)	(9)
Total unallocated corporate items	(259)	(231)	(528)	(465)
Total operating loss from continuing operations	$(98)	$(46)	$(212)	$(123)

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, 2014. In August 2013 we completed the sales of our Intuit Financial Services (IFS) business and our Intuit Health business. We have reclassified our statements of operations for all periods presented to reflect these two businesses as discontinued operations. Because the operating cash flows of our IFS and Intuit Health discontinued operations were not material for any period presented, we have not segregated them from continuing operations 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, and Professional Tax.

Small Business: This segment includes the following offerings, which target small businesses and the accounting professionals who serve them.

- QuickBooks financial and business management online services and desktop software, payroll and employee management solutions, and payment processing solutions.
- Demandforce online marketing and customer communication solutions for small businesses.

Consumer: This segment includes two product lines – Consumer Tax and Consumer Ecosystem – both of which target consumers.

- Consumer Tax includes TurboTax income tax preparation products and services.
- Consumer Ecosystem includes our personal finance offerings, Quicken, Mint, and Mint Bills (formerly known as Check).

Professional Tax: This segment targets professional accountants and includes Lacerte, ProSeries, and Intuit Tax Online professional tax products and services.

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Our Growth Strategy

Based on our assessment of key technology and demographic trends – an increasingly borderless world, the prevalence of mobile devices, and the scalability of the cloud – we see 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.” Computing devices are moving to the palm of our hands in the form of tablets and smart phones. Our TurboTax solutions, for example, let customers prepare and file their entire tax returns online, via tablet, mobile phone, or desktop computer. We also believe that a key factor in growing our customer base is delivering 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 problems faster and more efficiently for our growing base of customers by moving to more open platforms with application programming interfaces that enable the contributions of end users and third-party developers. One example of this is QuickBooks Online, which allows small business customers all over the world to localize, configure, and add value to the offering.

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

Industry Trends and Seasonality

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

Historically, our QuickBooks, Consumer Tax, and Professional Tax offerings have been highly seasonal. Revenue from our QuickBooks software products have tended to be highest during our second and third fiscal quarters. Sales of income tax preparation products and services are heavily concentrated from November through April. In our Consumer Tax business, a greater proportion of our revenue has shifted to later in this seasonal period due in part to the growth in sales of TurboTax Online, for which we recognize revenue when tax returns are printed or electronically filed. The seasonality of our Consumer Tax and Professional Tax revenue is also affected by the timing of the availability of tax forms from taxing agencies and the ability of those agencies to receive electronic tax return submissions. Delays in the availability of tax forms or the ability of taxing agencies to receive submissions can cause revenue to shift between our fiscal quarters. These seasonal patterns mean that our total net revenue is usually highest during our second quarter ending January 31 and third quarter ending April 30. We typically report losses in our first quarter ending October 31 and fourth quarter ending July 31. During these quarters, revenue from our tax businesses is minimal while core operating expenses such as research and development continue at relatively consistent levels. In our MD&A we often focus on year-to-date results for our seasonal businesses as they are generally more meaningful than quarterly results.

In August 2014 we announced that we would begin delivering ongoing releases for our future desktop software offerings in order to improve the product experience, accommodate operating system updates, and provide access to connected services. We believe that providing more frequent releases will create a better experience for customers who choose our desktop offerings, as well as a more seamless transition to our online offerings in the future. This decision affects the timing of revenue recognition for future sales of our QuickBooks and Quicken desktop products, where revenue will be recognized as services are provided over approximately three years, and our Professional Tax solutions, where revenue will be recognized as services are provided over the tax year. We expect the seasonality of our Small Business and Professional Tax offerings to be partially mitigated by this change beginning in fiscal 2015.

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The IRS began accepting 2014 federal income tax returns on January 20, 2015, several days before the end of our second fiscal quarter. In fiscal 2014 the Internal Revenue Service did not begin accepting 2013 federal income tax returns until January 31, 2014, the last day of our second fiscal quarter. We believe that some consumers delayed purchasing tax software and filing their federal returns in fiscal 2014 as a result of the later start to the 2013 tax filing season.

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.

During the early part of this tax season, we and some states saw an increase in suspicious filings and attempts by criminals using stolen identity information to file fraudulent state tax returns and claim refunds. While we continued to work with state governments to identify the source of the fraudulent activity and to implement additional security measures, in early February 2015 we and certain states took the precautionary step of suspending the electronic filing of state tax returns for a short period of time. While our recent financial performance has not been adversely impacted by the actions we have taken to combat fraud, we have experienced negative publicity associated with such fraudulent activity and there can be no assurance that our financial performance for the balance of our third fiscal quarter and subsequent quarters will not be adversely impacted.

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.

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 $3.0 billion or 66% of our total revenue in fiscal 2014, compared with 50% of our total revenue six 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 six months of fiscal 2015 was $1.5 billion, an increase of 5% compared with the same period of fiscal 2014. Total net revenue growth was affected by the change to our desktop software offerings described in “Industry Trends and Seasonality” above. Our Consumer segment was the key driver of higher revenue in the first six months of fiscal 2015, growing 26% compared with the same period a year ago. Consumer segment revenue was higher in the fiscal 2015 period because the IRS began accepting federal income tax returns on January 20, 2015, several days before the end of our second fiscal quarter. In comparison, in the previous year the IRS began accepting federal income tax returns on January 31, 2014, the last day of our second fiscal quarter. We believe the later start to the fiscal 2014 tax filing season had the effect of delaying some consumer purchases of tax software and filing of federal returns. In addition, while we were able to process all of the income tax returns we received during the second quarter of fiscal 2015 during that quarter, we were unable to process all of the state income tax returns we received during the second quarter of fiscal 2014 on the last day of that quarter. As a result, we deferred recognizing approximately $40 million in Consumer Tax revenue from the second quarter of fiscal 2014 to the third quarter of fiscal 2014.

Operating loss from continuing operations for the first six months of fiscal 2015 was $212 million, an increase of 72% compared with the same period of fiscal 2014. Our operating loss was higher in fiscal 2015 due to the impact of the change to our desktop software offerings on fiscal 2015 revenue and due to higher expenses for staffing, advertising and other marketing programs, and share-based compensation.

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Net loss from continuing operations for the first six months of fiscal 2015 was $150 million, an increase of 60% compared with the same period of fiscal 2014 due to the higher operating loss, partially offset by a higher effective tax rate in the fiscal 2015 period. Basic and diluted net loss per share from continuing operations for the first six months of fiscal 2015 increased 61% to $0.53, in line with the increase in the net loss for that period.

We ended the first six months of fiscal 2015 with cash, cash equivalents and investments totaling $1.4 billion. During the first six months of fiscal 2015 we generated cash from operations, net sales of investments, and the issuance of common stock under employee stock plans. During the same period we used cash for the repurchase of shares of our common stock under our stock repurchase programs, the payment of cash dividends, and capital expenditures. At January 31, 2015, we had authorization from our Board of Directors to expend up to an additional $1.2 billion for stock repurchases through August 19, 2017.

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, 2014 have the greatest potential impact on our financial statements, so we consider them to be our critical accounting policies and estimates. Except for the changes to our policy for recognizing product revenue described in "Executive Overview – Industry Trends and Seasonality" earlier in this Item 2, we believe that there were no significant changes in those critical accounting policies and estimates during the first six months of fiscal 2015. Senior management has reviewed the development and selection of our critical accounting policies and estimates and their disclosure in this Quarterly Report on Form 10-Q with the Audit and Risk Committee of our Board of Directors.

Results of Operations

Financial Overview

(Dollars in millions, except per share amounts)	Q2 FY15	Q2 FY14	$ Change	% Change	YTD Q2 FY15	YTD Q2 FY14	$ Change	% Change
Total net revenue	$808	$782	$26	3 %	$1,480	$1,404	$76	5 %
Operating loss from continuing operations	(98)	(46)	(52)	113 %	(212)	(123)	(89)	72 %
Net loss from continuing operations	(66)	(37)	(29)	78 %	(150)	(94)	(56)	60 %
Basic and diluted net loss per share from continuing operations	$(0.23)	$(0.13)	$(0.10)	77 %	$(0.53)	$(0.33)	$(0.20)	61 %

Current Fiscal Quarter

Total net revenue increased $26 million or 3% in the second quarter of fiscal 2015 compared with the same quarter of fiscal 2014. Total net revenue growth was affected by the change to our desktop software offerings described in "Industry Trends and Seasonality" above. Small Business segment revenue decreased 1% compared with the same period a year ago due to the impact of this change on our QuickBooks desktop offerings, which more than offset QuickBooks Online revenue growth. The change to our desktop software offerings also impacted our Professional Tax segment, whose revenue decreased 69% compared with the same period a year ago. Revenue in our Consumer segment increased 30% in the second quarter of fiscal 2015. Consumer segment revenue was higher in the fiscal 2015 period because the IRS began accepting federal income tax returns on January 20, 2015, several days before the end of our second fiscal quarter. In comparison, in the previous year the IRS began accepting federal income tax returns on January 31, 2014, the last day of our second fiscal quarter. We believe the later start to the fiscal 2014 tax filing season had the effect of delaying some consumer purchases of tax software and filing of federal returns. In addition, while we were able to process all of the income tax returns we received during the second quarter of fiscal 2015 during that quarter, we were unable to process all of the state income tax returns we received during the second quarter of fiscal 2014 on the last day of that quarter. As a result, we deferred recognizing approximately $40 million in Consumer Tax revenue from the second quarter of fiscal 2014 to the third quarter of fiscal 2014. 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 increased 113% in the second quarter of fiscal 2015 compared with the same quarter of fiscal 2014. Our operating loss was higher in fiscal 2015 due to the impact of the change to our desktop software offerings on fiscal 2015 revenue and due to higher expenses 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 increased 78% in the second quarter of fiscal 2015 compared with the same quarter of fiscal 2014 due to the higher operating loss, partially offset by a higher effective tax rate in the fiscal 2015 period. See "Non-Operating Income and Expenses – Income Taxes" later in this Item 2 for more information. Basic and diluted net loss per share from continuing operations for the second quarter of fiscal 2015 increased 77% to $0.23, in line with the increase in the net loss for that period.

Fiscal Year to Date

Total net revenue for the first six months of fiscal 2015 increased $76 million or 5% compared with the same period of fiscal 2014. Total net revenue growth was affected by the change to our desktop software offerings described in “Industry Trends and Seasonality” above. Small Business segment revenue grew 2% compared with the same period a year ago due to growth in Quickbooks Online revenue, which was partially offset by the impact of the change to our QuickBooks desktop offerings. The change to our desktop software offerings also impacted our Professional Tax segment, whose revenue decreased 21% compared with the same period a year ago. Revenue in our Consumer segment increased 26% in the first six months of fiscal 2015 for the reasons described in "Current Fiscal Quarter" immediately above. 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 increased 72% for the first six months of fiscal 2015 compared with the same period of fiscal 2014. Our operating loss was higher in fiscal 2015 due to the impact of the change to our desktop software offerings on fiscal 2015 revenue and due to higher expenses 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 increased 60% for the first six months of fiscal 2015 compared with the same period of fiscal 2014 due to the higher operating loss, partially offset by a higher effective tax rate in the fiscal 2015 period. See "Non-Operating Income and Expenses – Income Taxes" later in this Item 2 for more information. Basic and diluted net loss per share from continuing operations for the first six months of fiscal 2015 increased 61% to $0.53, in line with the increase in the net loss for that period.

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 6% 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 $497 million in the first six months of fiscal 2015 and $444 million in the first six months of fiscal 2014. Unallocated costs increased in the fiscal 2015 period due to increases in corporate product development and selling and marketing expenses in support of the growth of our businesses and 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 from figures calculated using the dollars in millions presented below.

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Small Business

(Dollars in millions)	Q2 FY15	Q2 FY14	% Change	YTD Q2 FY15	YTD Q2 FY14	% Change
Product revenue	$180	$221	(18)%	$367	$413	(11)%
Service and other revenue	373	339	10%	734	667	10%
Total segment revenue	$553	$560	(1)%	$1,101	$1,080	2%
% of total revenue	69%	72%		75%	77%	
Segment operating income	$172	$197	(13)%	$364	$387	(6)%
% of related revenue	31%	35%		33%	36%	

Service and other revenue in our Small Business segment is derived primarily from QuickBooks Online and QuickBooks Online Accountant, our hosted financial and business management offerings; QuickBooks Pro Plus, QuickBooks Premier Plus, and QuickBooks Accountant Plus, our subscription offerings; QuickBooks technical support plans; small business payroll services, including Quickbooks Online Payroll, Intuit Online Payroll, Intuit Full Service Payroll, and QuickBooks Assisted Payroll; payment processing services for small businesses; Demandforce; and QuickBase. Product revenue in our Small Business segment is derived primarily from QuickBooks desktop software products, including QuickBooks Pro, QuickBooks Premier, QuickBooks Accountant, and QuickBooks Enterprise Solutions; QuickBooks Basic Payroll and QuickBooks Enhanced Payroll; QuickBooks Point of Sale solutions; ProAdvisor Program subscriptions for the accounting professionals who serve small businesses; and financial supplies.

As part of our connected services strategy, over the past several quarters we have been focusing Small Business segment resources on the enhancement and marketing of our QuickBooks Online and QuickBooks desktop subscription offerings. As a result, QuickBooks desktop license units and revenue have been declining as more customers choose our hosted and subscription offerings and we expect this trend to continue. In our payments business we are focusing resources on core offerings for QuickBooks merchants in support of our small business ecosystem approach. Over the next few quarters we anticipate declining revenue for certain non-QuickBooks payments offerings that may slow overall revenue growth in our payments business.

Small Business segment total net revenue decreased $7 million or 1% in the second quarter of fiscal 2015 compared with the same quarter of fiscal 2014 due to the impact of the change to our QuickBooks desktop offerings described in "Industry Trends and Seasonality" above, which more than offset QuickBooks Online revenue growth. Small Business Online Ecosystem revenue grew 26%, driven by customer acquisition. QuickBooks Online customers grew 50% and online payroll customers grew 23%. Active online payments customers grew 3% and online payments charge volume grew 20%. In our Small Business Desktop Ecosystem revenue declined 10%. QuickBooks desktop unit sales were 26% lower as we continued to emphasize QuickBooks Online while QuickBooks Enterprise Solutions revenue grew 31%.

Small Business segment total net revenue increased $21 million or 2% in the first six months of fiscal 2015 compared with the same period of fiscal 2014 due to growth in Quickbooks Online revenue, which was partially offset by the impact of the change to our QuickBooks desktop offerings described in "Industry Trends and Seasonality" above. Small Business Online Ecosystem revenue grew 28%, driven by customer acquisition. QuickBooks Online customers grew 50% and online payroll customers grew 23%. Active online payments customers grew 3% and online payments charge volume grew 21%. In our Small Business Desktop Ecosystem revenue declined 7%. QuickBooks desktop unit sales were 25% lower as we continued to emphasize QuickBooks Online while QuickBooks Enterprise Solutions revenue grew 30%.

Small Business segment operating income as a percentage of related revenue decreased in the second quarter and first six months of fiscal 2015 compared with the same periods of fiscal 2014. These decreases were due to the impact on segment revenue of the changes to our desktop software offerings and to a lesser extent to higher segment operating expenses for outside services and advertising and other marketing programs.

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Consumer

(Dollars in millions)	Q2 FY15	Q2 FY14	% Change	YTD Q2 FY15	YTD Q2 FY14	% Change
Product revenue	$9	$33	(73)%	$25	$52	(52)%
Service and other revenue	235	154	52 %	307	212	45 %
Total segment revenue	$244	$187	30 %	$332	$264	26 %
% of total revenue	30 %	24 %		22 %	19 %	
Segment operating income (loss)	$26	$(3)	NM	$(8)	$(27)	(71)%
% of related revenue	11 %	(2)%		(2)%	(11)%	

NM = Not meaningful.

Our Consumer segment includes our Consumer Tax and Consumer Ecosystem product lines. Consumer Tax service and other revenue is derived primarily from TurboTax Online tax return preparation services and electronic tax filing services.

Consumer Tax product revenue is derived primarily from TurboTax desktop tax return preparation software.

Consumer Ecosystem product revenue is derived primarily from Quicken desktop personal finance software products.

Consumer Ecosystem service and other revenue is derived primarily from mobile and online consumer finance offerings as well as from online lead generation fees from our Mint personal finance offerings. Due to the seasonal nature of our Consumer Tax business, we will not have substantially complete results for the 2014 tax season until the third quarter of fiscal 2015.

Within the Consumer segment, revenue for our Consumer Tax product line increased 50% in the first six months of fiscal 2015 compared with the same period of fiscal 2014. Consumer segment revenue was higher in the fiscal 2015 period because the IRS began accepting federal income tax returns on January 20, 2015, several days before the end of our second fiscal quarter. In comparison, in the previous year the IRS began accepting federal income tax returns on January 31, 2014, the last day of our second fiscal quarter. We believe the later start to the fiscal 2014 tax filing season had the effect of delaying some consumer purchases of tax software and filing of federal returns. In addition, while we were able to process all of the income tax returns we received during the second quarter of fiscal 2015 during that quarter, we were unable to process all of the state income tax returns we received during the second quarter of fiscal 2014 on the last day of that quarter. As a result, we deferred recognizing approximately $40 million in Consumer Tax revenue from the second quarter of fiscal 2014 to the third quarter of fiscal 2014.

Revenue for our Consumer Ecosystem product line declined 26% in the first six months of fiscal 2015 compared with the same period of fiscal 2014. Quicken revenue was lower due to the change to our desktop software offerings described in Executive Overview – Industry Trends and Seasonality" above.

We recorded a smaller operating loss in our Consumer segment for the first six months of fiscal 2015 compared with the same period of fiscal 2014 due to the overall increase in Consumer revenue described above, partially offset by higher expenses for staffing and advertising and other marketing programs.

Professional Tax

(Dollars in millions)	Q2 FY15	Q2 FY14	% Change	YTD Q2 FY15	YTD Q2 FY14	% Change
Product revenue	$9	$33	(72)%	$39	$51	(23)%
Service and other revenue	2	2	— %	8	9	(9)%
Total segment revenue	$11	$35	(69)%	$47	$60	(21)%
% of total revenue	1 %	4 %		3 %	4 %	
Segment operating loss	$(37)	$(9)	337 %	$(40)	$(18)	134 %
% of related revenue	(346)%	(25)%		(86)%	(29)%	

Professional Tax segment product revenue is derived primarily from ProSeries and Lacerte professional tax preparation software products. Professional Tax service and other revenue is derived primarily from Intuit Tax Online tax return preparation services, electronic tax filing services, bank product transmission services, and training services. Due to the seasonal nature of our Professional Tax business, we will not have substantially complete results for the 2014 tax season until the third quarter of fiscal 2015.

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Professional Tax total net revenue decreased $13 million or 21% in the first six months of fiscal 2015 compared with the same period of fiscal 2014 because of the change to our desktop software offerings described in “Industry Trends and Seasonality” above. Professional Tax operating loss as a percentage of related revenue increased in the first six months of fiscal 2015 compared with the same period of fiscal 2014 as a result of this revenue decrease and to a lesser extent to higher segment operating costs and expenses.

Cost of Revenue

(Dollars in millions)	Q2 FY15	% of Related Revenue		Q2 FY14	% of Related Revenue		YTD Q2 FY15	% of Related Revenue		YTD Q2 FY14	% of Related Revenue	
Cost of product revenue	$44	22	%	$45	16	%	$78	18	%	$74	14	%
Cost of service and other revenue	153	25	%	125	25	%	284	27	%	233	26	%
Amortization of acquired technology	9	n/a		6	n/a		19	n/a		12	n/a	
Total cost of revenue	$206	25	%	$176	23	%	$381	26	%	$319	23	%

Cost of product revenue as a percentage of product revenue increased in the second quarter and first six months of fiscal 2015 compared with the same period of fiscal 2014 due to the deferral of QuickBooks, Quicken, and Professional Tax revenue described in “Executive Overview – Industry Trends and Seasonality” earlier in this Item 2. We expense costs of product revenue as they are incurred for delivered software and we do not defer any of these costs when product revenue is deferred.

Operating Expenses

(Dollars in millions)	Q2 FY15	% of Total Net Revenue		Q2 FY14	% of Total Net Revenue		YTD Q2 FY15	% of Total Net Revenue		YTD Q2 FY14	% of Total Net Revenue	
Selling and marketing	$376	46	%	$352	45	%	$657	44	%	$610	43	%
Research and development	200	25	%	186	24	%	400	27	%	362	26	%
General and administrative	118	15	%	109	14	%	242	16	%	227	16	%
Amortization of other acquired intangible assets	6	1	%	5	—	%	12	1	%	9	1	%
Total operating expenses	$700	87	%	$652	83	%	$1,311	88	%	$1,208	86	%

Current Fiscal Quarter

Total operating expenses as a percentage of total net revenue increased to 87% in the second quarter of fiscal 2015 from 83% in the same quarter of fiscal 2014. Total net revenue for the second quarter of fiscal 2015 increased $26 million or 3% and total operating expenses for that quarter increased $48 million. Total net revenue growth was affected by the change to our desktop software offerings described in “Executive Overview – Industry Trends and Seasonality” earlier in this Item 2. Staffing expenses increased about $25 million due to higher headcount. Operating expenses also increased about $15 million for advertising and other marketing programs and about $9 million for share-based compensation expenses. Share-based compensation expenses increased due to our assumption of certain equity awards in connection with business combinations that were completed in fiscal 2014. Share-based compensation expenses have also been increasing over time because the market price of our common stock has generally been increasing.

Fiscal Year to Date

Total operating expenses as a percentage of total net revenue increased to 88% in the first six months of fiscal 2015 from 86% in the same period of fiscal 2014. Total net revenue for the first six months of fiscal 2015 increased $76 million or 5% and total operating expenses for that period increased $103 million. Total net revenue growth was affected by the change to our desktop software offerings described in “Executive Overview – Industry Trends and Seasonality” earlier in this Item 2. Staffing

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expenses increased about $45 million due to higher headcount. Operating expenses also increased about $23 million for advertising and other marketing programs and about $23 million for share-based compensation expenses. Share-based compensation expenses increased due to our assumption of certain equity awards in connection with business combinations that were completed in fiscal 2014. Share-based compensation expenses have also 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 $14 million for the first six months of fiscal 2015 and $16 million for the first six months of fiscal 2014 consisted primarily of interest on senior notes that we issued in March 2007. See Note 6 to the financial statements in Part I, Item 1 of this Quarterly Report for more information.

Interest and Other Income, Net

	Three Months Ended		Six Months Ended	
(In millions)	January 31, 2015	January 31, 2014	January 31, 2015	January 31, 2014
Interest income	$2	$1	$4	