

INTUIT INC  
Form 10-K  
September 15, 2009

**Table of Contents**

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

**FORM 10-K**

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
**For the fiscal year ended July 31, 2009**  
OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
**Commission File Number 0-21180**  
**INTUIT INC.**  
*(Exact name of registrant as specified in its charter)*

**Delaware** **77-0034661**  
*(State of incorporation)* *(IRS Employer Identification No.)*  
**2700 Coast Avenue, Mountain View, CA 94043**  
*(Address of principal executive offices, including zip code)*  
**(650) 944-6000**  
*(Registrant's telephone number, including area code)*

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class            | Name of Exchange on Which Registered |
|--------------------------------|--------------------------------------|
| Common Stock, \$0.01 par value | NASDAQ Global Select Market          |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

b

(Do not check if a smaller reporting company)

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

The aggregate market value of Intuit Inc. outstanding common stock held by non-affiliates of Intuit as of January 30, 2009, the last business day of our most recently completed second fiscal quarter, based on the closing price of \$22.65 reported by the NASDAQ Global Select Market on that date, was \$6.8 billion.

There were 321,936,540 shares of Intuit voting common stock outstanding as of August 31, 2009.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement for its Annual Meeting of Stockholders to be held on December 15, 2009 are incorporated by reference in Parts II and III of this Annual Report on Form 10-K.

---

**INTUIT INC.  
FISCAL 2009 FORM 10-K  
INDEX**

| <b>Item</b>   | <b>Page</b> |
|---|-------------|
| <b><u>PART I</u></b>  |             |
| <u>ITEM 1: Business</u>   | 3           |
| <u>ITEM 1A: Risk Factors</u>  | 16          |
| <u>ITEM 1B: Unresolved Staff Comments</u>   | 27          |
| <u>ITEM 2: Properties</u>   | 27          |
| <u>ITEM 3: Legal Proceedings</u>  | 27          |
| <u>ITEM 4: Submission of Matters to a Vote of Security Holders</u>  | 28          |
| <b><u>PART II</u></b>   |             |
| <u>ITEM 5: Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | 28          |
| <u>ITEM 6: Selected Financial Data</u>  | 31          |
| <u>ITEM 7: Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                        | 32          |
| <u>ITEM 7A: Quantitative and Qualitative Disclosures About Market Risk</u>  | 53          |
| <u>ITEM 8: Financial Statements and Supplementary Data</u>  | 55          |
| <u>ITEM 9: Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>                         | 102         |
| <u>ITEM 9A: Controls and Procedures</u>   | 102         |
| <u>ITEM 9B: Other Information</u>   | 102         |
| <b><u>PART III</u></b>  |             |
| <u>ITEM 10: Directors, Executive Officers and Corporate Governance</u>  | 103         |
| <u>ITEM 11: Executive Compensation</u>  | 104         |
| <u>ITEM 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>              | 105         |
| <u>ITEM 13: Certain Relationships and Related Transactions, and Director Independence</u>                                   | 105         |
| <u>ITEM 14: Principal Accountant Fees and Services</u>  | 105         |
| <b><u>PART IV</u></b>   |             |
| <u>ITEM 15: Exhibits and Financial Statement Schedules</u>  | 106         |
| <u>Signatures</u>   | 110         |
| <u>EX-4.01</u>  |             |
| <u>EX-10.33</u>   |             |
| <u>EX-21.01</u>   |             |
| <u>EX-23.01</u>   |             |
| <u>EX-31.01</u>   |             |
| <u>EX-31.02</u>   |             |
| <u>EX-32.01</u>   |             |
| <u>EX-32.02</u>   |             |

Edgar Filing: INTUIT INC - Form 10-K

Intuit, the Intuit logo, QuickBooks, TurboTax, Lacerte, ProSeries, Digital Insight, and Quicken, among others, are registered trademarks and/or registered service marks of Intuit Inc., or one of its subsidiaries, in the United States and other countries. Other parties' marks are the property of their respective owners.

**Table of Contents**

This Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties. Please see the section entitled *Forward-Looking Statements and Risk Factors* in Item 1A of this Report for important information to consider when evaluating these statements.

**PART I**

**ITEM 1**

**BUSINESS**

**CORPORATE BACKGROUND**

***General***

Intuit Inc. is a leading provider of business and financial management solutions for small and medium-sized businesses, consumers, accounting professionals and financial institutions. Our flagship products and services, including QuickBooks, Quicken and TurboTax, simplify small business management and payroll processing, personal finance, and tax preparation and filing. ProSeries and Lacerte are Intuit's leading tax preparation offerings for professional accountants. Our financial institutions division, anchored by Digital Insight, provides online banking services that help banks and credit unions serve consumers and businesses with innovative solutions.

We had revenue of \$3.2 billion in our fiscal year ended July 31, 2009, and had approximately 7,800 employees in major offices in the United States, Canada, India, the United Kingdom and other locations as of that date.

Intuit was incorporated in California in March 1984. We reincorporated in Delaware and completed our initial public offering in March 1993. Our principal executive offices are located at 2700 Coast Avenue, Mountain View, California, 94043, and our main telephone number is 650-944-6000. Our corporate Web site, [www.intuit.com](http://www.intuit.com), provides materials for investors and information relating to Intuit's corporate governance. The content on any Web site referred to in this filing is not incorporated by reference into this filing unless expressly noted otherwise. When we refer to we, our or Intuit in this Annual Report on Form 10-K, we mean the current Delaware corporation (Intuit Inc.) and its California predecessor, as well as all of our consolidated subsidiaries.

***Available Information***

We file reports required of public companies with the Securities and Exchange Commission (SEC). These include annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other reports, and amendments to these reports. The public may read and copy the materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 202-551-8090. The SEC also maintains a Web site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. We make available free of charge on the Investor Relations section of our corporate Web site all of the reports we file with the SEC as soon as reasonably practicable after the reports are filed. Copies of Intuit's fiscal 2009 Annual Report on Form 10-K may also be obtained without charge by contacting Investor Relations, Intuit Inc., P.O. Box 7850, Mountain View, California 94039-7850 or by calling 650-944-6000.

**BUSINESS OVERVIEW**

***Intuit's Mission***

We seek to be a premier innovative growth company that empowers individuals and businesses to achieve their dreams.

Our customers include small and medium-sized businesses, consumers, accounting professionals and financial institutions. We help them solve important business and financial management problems, such as running a small business, paying bills and income taxes, or balancing a checkbook. We believe our innovative products and services simplify the lives of millions, while helping them save and make money.

Emerging technology and market trends are changing the way people live and work, and the way we help customers. We're connecting those customers to our solutions and with each other in ways that add more value to our products

## **Table of Contents**

and services. And we're taking a global view as well, creating solutions for customers whose personal and professional lives often transcend geographic borders.

### ***Our Business Portfolio***

We organize our portfolio of businesses into four principal categories – Small Business Group, Tax, Financial Institutions and Other Businesses. These categories include seven financial reporting segments.

**Small Business Group:** This category includes three segments – Financial Management Solutions, formerly known as QuickBooks; Employee Management Solutions, formerly known as Payroll; and Payments Solutions, formerly known as Payments.

Our Financial Management Solutions segment includes QuickBooks financial and business management software and services, technical support, financial supplies, and Web site design and hosting services for small and medium-sized businesses.

Our Employee Management Solutions segment provides payroll products and services for small businesses.

Our Payments Solutions segment provides merchant services for small businesses, including credit and debit card processing, electronic check conversion and automated clearing house services.

**Tax:** This category includes two segments – Consumer Tax and Accounting Professionals.

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

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

**Financial Institutions:** This segment consists primarily of outsourced online services for banks and credit unions provided by our Digital Insight business. It includes our online banking and bill-pay services as well as our Personal FinanceWorks and Small Business FinanceWorks offerings, which provide comprehensive online financial management solutions for consumers and small businesses.

**Other Businesses:** This segment includes Quicken personal finance products and services, Intuit Real Estate Solutions, and our businesses in Canada and the United Kingdom.

### ***Our Growth Strategy***

Our core growth strategy remains unchanged: To be in growth businesses, high-profit businesses and attractive new markets with large unmet or underserved needs that we can solve well.

We adapt our approach to meet changing demographics, technology and market trends. Our Connected Services strategy, announced in fiscal year 2008, reflects a world where people and businesses are increasingly connected, whether through desktop, laptop or handheld devices. With this expanded connectivity, people expect access to services any time, any place. By implementing this strategy, we intend to create customer delight by offering easy-to-use connected services that solve customers' problems while building durable competitive advantage. Nearly 50 million people use our QuickBooks, payroll, payments, TurboTax, Digital Insight and Quicken products and services. This positions us to succeed by connecting these people to our services and to each other. We do this in three different ways:

*Connecting customers directly to our online services:* We host services such as QuickBooks Online, online payroll services for small businesses, Web site services for small businesses, TurboTax Online, and online banking services for financial institutions. Sometimes referred to as Software as a Service, or SaaS, these offerings are designed to deliver clear benefits and value to customers.

*Connecting our services to our software:* We offer services, such as small business payroll and merchant services, that can be connected with software, such as QuickBooks. This can create powerful solutions that we believe give us a competitive advantage.

## Edgar Filing: INTUIT INC - Form 10-K

*Connecting people to people:* We are increasingly using our products as a platform to connect people to each other and to us, allowing them to share information and solve problems together. For example, our TurboTax Live Community allows participants to submit and answer each other's questions while preparing their income tax returns.



**Table of Contents**

We have made significant progress in this connected services environment. More than 56% of our \$3.2 billion in fiscal 2009 revenue came from connected services.

To compete in this connected world, our strategy is to take advantage of three emerging technology and market trends:

*Social:* Linked to businesses and each other in a connected world, people shape product development, share their expertise and influence opinion like never before. Customers can share advice with each other by using the online forums available in each of our major products. In a social world, people connect and contribute to our product offerings.

*Mobile:* As technology moves from the desktop to the palmtop, we are focusing on mobile services that deliver in the pocket any place at any time that is convenient for customers. For example, Intuit GoPayment helps small businesses improve sales and cash flow by accepting credit card payments on their mobile phones.

*Global:* As geographic borders become less important to businesses, we are working to help customers take advantage of a global marketplace and find new customers in new markets.

**Summary**

As our strategy evolves, we remain committed to developing innovative products and services that are so convenient and easy to use that customers actively recommend them to others. We call these customers promoters people who create positive word-of-mouth by promoting our brand to others. For more than 25 years we've worked to solve their important business and financial management problems. Looking ahead, we will also work to help them solve each other's problems, connecting people to people and to solutions.

**PRODUCTS AND SERVICES**

We offer our products and services in the seven business segments described in *Business Overview* above. The following table shows the classes of similar products or services that accounted for 10% or more of total net revenue in fiscal 2009, 2008 and 2007.

|   | <b>Fiscal<br/>2009</b> | <b>Fiscal<br/>2008</b> | <b>Fiscal<br/>2007</b> |
|---|------------------------|------------------------|------------------------|
| Financial Management Solutions (QuickBooks) | 18%                    | 19%                    | 20%                    |
| Employee Management Solutions (Payroll)     | 12%                    | 11%                    | 13%                    |
| Consumer Tax                                | 31%                    | 30%                    | 30%                    |
| Accounting Professionals                    | 11%                    | 11%                    | 12%                    |
| Financial Institutions                      | 10%                    | 10%                    | 6%                     |

Our products and services are sold mainly in the United States and are described below. International total net revenue was less than 5% of consolidated total net revenue for fiscal 2009, 2008 and 2007. For financial information about these segments, see *Management's Discussion and Analysis of Financial Condition and Results of Operations* in Item 7 and Note 15 to the financial statements in Item 8.

**Financial Management Solutions (formerly known as QuickBooks)**

*QuickBooks Software.* Our QuickBooks product line brings bookkeeping capabilities and business management tools to small and medium-sized business users in an easy-to-use design that does not require them to be familiar with debit and credit accounting. We offer a range of products to suit the needs of different types of businesses. Our desktop software products include QuickBooks Simple Start, which provides accounting functionality suitable for very small, less complex businesses and is offered in both free and paid versions; QuickBooks Pro and QuickBooks Pro for Mac, which provide accounting functionality suitable for slightly larger businesses; QuickBooks Premier,

**Table of Contents**

which provides small businesses with advanced accounting functionality and business planning tools; and QuickBooks Enterprise Solutions, designed for larger businesses. Our Premier and Enterprise products also come in a range of industry-specific editions, including Manufacturing, Wholesale and Distribution, Retail, Non-Profit, Contractors, and Professional Services. In addition, we offer a Web-based version of QuickBooks called QuickBooks Online that is suitable for multiple users working in various locations and offered in both free and paid versions.

*QuickBooks Technical Support.* We offer several technical support options to our QuickBooks customers. These include support plans that are sold separately and priced based on the length of the plan. We also offer a free self-help information section on our QuickBooks.com Web site and free access to the QuickBooks Community, an online forum where QuickBooks users can share information with each other.

*Web Services for Small Businesses.* We offer services to small businesses that help them establish a presence on the Web, maintain and promote their Web sites, and sell or market their products online.

*Financial Supplies.* We offer a range of financial supplies designed for small businesses and individuals that use QuickBooks and Quicken. These include paper checks, envelopes, invoices and deposit slips. In addition, we offer business identity services that include business cards and stationery. We also offer tax forms, tax return presentation folders and other supplies for professional tax preparers. Our customers can personalize many products to incorporate their logos and use a variety of color, font and design options.

*QuickBase.* Our QuickBase offering is a Software as a Service (SaaS) platform based on a robust database that allows business users to select ready-made online workgroup applications or create custom solutions for their businesses. The most common solutions include project collaboration, sales team management and employee management. QuickBase customers pay a monthly or annual subscription fee that varies based on the number of users and the amount of data and file storage they need.

*Intuit Developer Network.* The Intuit Developer Network is an initiative that encourages third-party software developers to build applications that exchange data with QuickBooks and other Intuit products by giving them access to certain application programming interfaces. The Intuit Developer Network has launched the Intuit Partner Platform, which allows developers to sell online applications to Intuit's customers. Developers can choose to build on Intuit's platform or any platform they choose, but all applications must integrate with the platform in specific ways. Developers who register with the Intuit Developer Network have access to the latest QuickBooks software development kit, the Intuit Partner Platform, QuickBooks software downloads, and member benefits such as marketing tools, developer forums and one-on-one engineering support. At the end of fiscal 2009, approximately 325 third-party applications were available for QuickBooks and other Intuit products at [www.marketplace.intuit.com](http://www.marketplace.intuit.com).

***Employee Management Solutions (formerly known as Payroll)***

QuickBooks Payroll is a family of products sold on a subscription basis to small businesses that use QuickBooks and prepare their own payroll or want some assistance with preparing their payroll. It is also sold to accountants who use QuickBooks and help their clients manage their payrolls. The product family includes QuickBooks Basic Payroll, which provides payroll tax tables and payroll reports; QuickBooks Enhanced Payroll, which provides payroll tax tables, payroll reports, federal and state payroll tax forms, workers' compensation tracking, and eFile & Pay for federal and state payroll taxes; QuickBooks Enhanced Payroll for Accountants, which has several accountant-specific features in addition to the features in QuickBooks Enhanced Payroll; and QuickBooks Online Payroll, for use with QuickBooks Online. We also offer QuickBooks Assisted Payroll, through which we provide the back-end aspects of payroll processing, including tax payments and filings, for customers who process their payrolls using QuickBooks. Direct deposit is available with each of these offerings for an additional fee. Intuit Online Payroll provides small business payroll services on a subscription basis that do not require customers to use QuickBooks. This offering includes online payroll tax calculation, payroll reports, direct deposit, electronic payment of federal and state payroll taxes, and federal and state payroll tax forms. In July 2009 we acquired PayCycle, Inc., a provider of online payroll services to small businesses that we plan to integrate with our existing payroll offerings during fiscal 2010.

**Table of Contents*****Payments Solutions***

***Merchant Services.*** We offer a full range of merchant services to small businesses that include credit card, debit card, electronic benefits, and gift card processing services; check verification, check guarantee, and electronic check conversion, including automated clearing house (ACH) and Check21 capabilities; and Web-based transaction processing services for online merchants. In addition to transaction processing services, we provide a full range of support for our clients that includes customer service, merchant and consumer collections, chargeback and retrieval support, and fraud and loss prevention screening.

***QuickBooks Point of Sale Solutions.*** In fiscal 2009 we transferred our Point of Sale offerings from our Financial Management Solutions segment to our Payments Solutions segment to align this product group more closely with the customers they serve. We offer Basic, Pro and Multi-Store versions of QuickBooks Point of Sale, which help retailers process sales using barcodes, track inventory and customer purchases, and integrate with QuickBooks. We also offer Cash Register Plus, an entry level product for small retail businesses that helps them manage detailed sales data, track customers, and manage daily tasks more efficiently. We sell these software products with or without the accompanying hardware.

***Consumer Tax***

Our TurboTax products and services are designed to enable individuals and small business owners to prepare and file their own federal and state personal and small business income tax returns quickly and accurately. They are designed to be easy to use, yet sophisticated enough for complex tax returns.

***Tax Return Preparation Offerings.*** For the 2008 tax season we offered a range of software products and services that included desktop and online versions of TurboTax Basic, for simple returns; TurboTax Deluxe, for taxpayers who itemize deductions; TurboTax Premier, for taxpayers who own investments or rental property; and TurboTax Home and Business, for small business owners. We also offered TurboTax Business desktop software for larger businesses and TurboTax Free Edition online for the simplest returns. These offerings are subject to change for the 2009 tax season. TurboTax Live Community is an online forum where participants can learn from and share information with other users while preparing their income tax returns.

***Electronic Filing and Other Services.*** Through our electronic filing center, our desktop and online tax preparation customers can electronically file their federal income tax returns, as well as state returns in all states that support electronic filing. For the 2008 tax year our online tax services were offered through the Web sites of nearly 2,800 financial institutions, electronic retailers and other merchants.

***Intuit Tax Freedom Project.*** Under the Intuit Tax Freedom Project, we provide online federal and state income tax return preparation and electronic filing services at no charge to eligible taxpayers. In fiscal 2009 we provided approximately 1.4 million free federal returns under this initiative. We are a member of the Free File Alliance, a consortium of private sector companies that has entered into an agreement with the federal government to provide free online federal tax preparation and filing services to eligible taxpayers. See also *Competition Consumer Tax* later in this Item 1.

***Accounting Professionals***

Our Accounting Professionals segment provides software and services for accountants and tax preparers in public practice. These include offerings that help professional accountants and tax preparers provide accounting, payroll, tax planning and tax compliance services to their individual and business clients, and that help them manage their own practices more effectively.

***Tax Offerings.*** Our tax software product lines for accounting professionals are Lacerte and ProSeries. Lacerte software is designed for full-service accounting firms that prepare the most complex returns. We offer two versions of our ProSeries software: ProSeries Professional Edition, designed for year-round tax practices that prepare moderately complex tax returns; and ProSeries Basic Edition, designed for the needs of smaller and seasonal tax practices. Accounting professionals license these tax products for a flat fee for unlimited use, or use them to print or electronically file tax returns on a pay-per-return basis. Accountants and tax preparers using Lacerte and ProSeries can file their clients' tax returns using our electronic filing services.

## **Table of Contents**

*Accounting Offerings.* Our accounting offering for professionals, QuickBooks Premier Accountant Edition, provides the tools and file-sharing capabilities needed to efficiently complete bookkeeping, trial balance, write-up, and financial reporting tasks. Our QuickBooks ProAdvisor Program is a subscription-based membership that provides QuickBooks and QuickBooks Payroll software for professional accountants, technical support, training, product certification, access to marketing tools and discounts on products purchased on behalf of clients.

### ***Financial Institutions***

Our Digital Insight business provides outsourced online banking offerings that are hosted in our data centers and delivered as on-demand services to small and medium-sized financial institutions. No single financial institution accounted for more than 10% of this segment's total net revenue in fiscal 2009, 2008 or 2007.

*Consumer Banking.* We offer Internet banking services that financial institutions make available to their retail customers. These services include the ability to view transaction history, account balances, check images and statements; funds transfer between accounts; inter-institutional transfers; bill payment and bill presentment; and Personal FinanceWorks, our comprehensive online personal financial management solution.

*Business Banking.* We also offer Internet banking services that financial institutions make available to their business customers. These services include features similar to those of our consumer offering as well as lockbox reporting; payroll direct deposit; wire and inter-account fund transfers; account reconciliations; foreign exchange trade; and Small Business FinanceWorks, our comprehensive online business financial management solution.

### ***Other Businesses***

*Quicken.* Our Quicken line of desktop software products helps users organize, understand and manage their personal finances. Quicken allows customers to reconcile bank accounts, pay bills, record credit card and other transactions, and track investments, mortgages and other assets and liabilities. Quicken also allows customers to flag their tax-related financial transactions and download that information into our TurboTax consumer tax return preparation software. We offer Quicken Starter Edition and Quicken Deluxe as well as Quicken Premier, which offers more robust investment and tax planning tools; Quicken Home and Business, which allows customers to manage both personal and small business finances in one application; and Quicken for Mac. We also offer Quicken Online, which brings customer bank account, credit card and bill payment information together on the Internet under a single password, and Quicken Mobile, which allows Quicken customers with iPhones to manage their personal finances through their iPhones.

*Intuit Real Estate Solutions.* Our Intuit Real Estate Solutions business offers software and related technical support, consulting and training services for residential, commercial and corporate property managers. In addition to its domestic operations, this business has operations in several international locations.

*Canada and the United Kingdom.* In Canada, we offer versions of QuickBooks that we have localized, that is, customized to meet the unique needs of customers in that specific international location. These include QuickBooks software offerings, payroll offerings and service plans. We also offer QuickTax consumer tax return preparation software, professional tax preparation products and services, and localized versions of Quicken in Canada. In the United Kingdom, we offer localized versions of QuickBooks and QuickBooks Payroll, including products and services sold in partnership with banks.

## **PRODUCT DEVELOPMENT**

Since the markets for software and related services are characterized by rapid technological change, shifting customer needs and frequent new product introductions and enhancements, a continuous high level of investment is required to innovate and quickly develop new products and services as well as enhance existing offerings. Our product development efforts are becoming more important than ever as we pursue our Connected Services strategy, which reflects a world where people and businesses are increasingly connected by technology and expect access to services at any time in any place.

**Table of Contents**

We develop the majority of our products and services internally. We have a number of United States patents and pending applications that relate to various aspects of our products and technology. We also supplement our internal development efforts by acquiring or licensing products and technology from third parties, and establishing other relationships that enable us to enhance or expand our offerings more rapidly. We expect to expand our third party technology relationships as we continue to pursue our Connected Services strategy.

Our traditional core desktop software products QuickBooks, TurboTax, Lacerte, ProSeries and Quicken tend to have predictable annual development and product release cycles. We also develop innovative new offerings such as Intuit GoPayment and Quicken Mobile for which development cycles can be more rapid. Developing consumer and professional tax software and services presents unique challenges because of the demanding development cycle required to accurately incorporate tax law and tax form changes within a rigid timetable. The development timing for our payroll, merchant services, and financial institutions offerings varies with business needs and regulatory requirements and the length of the development cycle depends on the scope and complexity of each particular project. In our Financial Institutions business, we have developed interfaces with the systems of many of the major providers of core processing software and services to financial institutions. These system interfaces allow us to access a financial institution's host system to provide end users access to their account data. In addition to developing new interfaces, we continue to enhance our many existing interfaces in order to deliver more robust connectivity and increase operating efficiencies.

We continue to make substantial investments in research and development, and we expect to focus our future research and development efforts on enhancing existing products and services and on developing new products and services that will offer increased ease of use, be customized for specific customer categories, be Web-integrated or Web-based, and feature improved integration with other Intuit and third party products and services and with our internal information systems. We also expect to continue to focus significant research and development efforts on ongoing projects to update the technology platforms for several of our products. Our research and development expenses were \$566.2 million or 18% of total net revenue in fiscal 2009, \$605.8 million or 20% of total net revenue in fiscal 2008, and \$472.5 million or 17% of total net revenue in fiscal 2007.

**SEASONALITY**

Our QuickBooks, Consumer Tax and Accounting Professionals offerings are highly seasonal. Some of our other offerings are also seasonal, but to a lesser extent. Revenue from our QuickBooks software products tends to be highest during our second and third fiscal quarters. Sales of income tax preparation products and services are heavily concentrated in the period from November through April. In our Consumer Tax business, a greater proportion of our revenue has been occurring later in this seasonal period due in part to the growth in sales of TurboTax Online, for which revenue is recognized upon printing or electronic filing of a tax return. The seasonality of our Consumer Tax and Accounting Professionals revenue is also affected by the timing of the availability of tax forms from taxing agencies and the ability of those agencies to receive electronic tax return submissions. Delays in the availability of tax forms or the ability of taxing agencies to receive submissions can cause revenue to shift from our second fiscal quarter to our third fiscal quarter. These seasonal patterns mean that our total net revenue is usually highest during our second quarter ending January 31 and third quarter ending April 30. We typically report losses in our first quarter ending October 31 and fourth quarter ending July 31, when revenue from our tax businesses is minimal while operating expenses continue at relatively consistent levels. In addition, the timing and composition of new customer offerings that include both product and service elements can materially shift revenue between quarters. We believe the seasonality of our revenue is likely to continue in the future.

**Table of Contents**

**MARKETING, SALES AND DISTRIBUTION CHANNELS**

***Markets***

Our primary target customers are small and medium-sized businesses, consumers, accounting professionals, and small and medium-sized financial institutions. The markets in which we compete have always been characterized by rapid technological change, shifting customer needs, and frequent new product introductions and enhancements by competitors. Over the past several years, the widespread availability of the Internet has accelerated the pace of change and revolutionized the way that customers learn about and purchase products and services. Real-time, personalized online shopping experiences are rapidly becoming the standard. In addition, many customers now begin their shopping process in one channel and ultimately make their purchase in a different channel. This drives the need to create integrated multi-channel shop and buy experiences. Market and industry changes are quickly rendering existing products and services obsolete, so our success depends on our ability to respond rapidly to these changes with new business models, updated competitive strategies, new or enhanced products and services, alternative distribution methods and other changes in the way we do business.

Our target customers for online banking services are small and medium-sized financial institutions seeking an outsourced solution that allows them to compete with the larger national banks in their market. We also provide online financial management solutions to financial institution customers of core processors.

***Marketing Programs***

To sell our products and services to small and medium-sized businesses, consumers and accounting professionals, we use a variety of marketing programs to generate software orders, stimulate demand and generally maintain and increase customer awareness of our products and services. These programs include Web marketing, including purchasing key words from major search engine companies; direct-response mail and email campaigns; telephone solicitations; newspaper, magazine, billboard, radio and television advertising; and promotional offers that we coordinate with major retailers. We also use workflow-integrated in-product discovery in some of our software products to market other related products and services, including third-party products and services. In our Financial Institutions business, our marketing efforts are primarily focused on identifying potential financial institution clients and marketing our services to consumer and small business end users in cooperation with our financial institution clients.

***Sales and Distribution Channels***

*Multi-Channel Shop and Buy Experiences.* Our consumer and small and medium-sized business customers increasingly use the Internet to research both online and desktop products and services. Some customers buy and use our products and services entirely online. Others purchase desktop products and services using the Internet. Still others prefer to make their final decision at a retail location. We coordinate our Web sites, promotions and retail displays in support of this integrated multi-channel shop and buy model.

*Direct Sales Channel.* We sell many of our products and services for small and medium-sized businesses, consumers and accounting professionals directly to our customers through our Web sites and call centers. Telesales continues to be an effective channel for serving customers that want live help selecting the products and services that are right for their needs.

In our Financial Institutions business, we sell our products and services to financial institutions using a direct sales model and, to a lesser but increasing extent, in cooperation with core processing partners. Our typical sales cycle is approximately six to twelve months for new financial institutions and four to six months for add-on sales to existing customers.

*Retail Channel.* We sell our QuickBooks, TurboTax and Quicken desktop software as well as our QuickBooks Payroll and Intuit Online Payroll services and merchant credit card payment processing services at retail in the United States. We sell these products and services directly and through distributors to office supply superstores, warehouse clubs, consumer electronics retailers, general mass merchandisers, online retailers, and catalogers. In Canada and other international markets we also rely on distributors and other third parties who sell products into the

**Table of Contents**

retail channel. The retail channel provides broad customer reach through retailer-sponsored advertising and exposure to retail foot traffic. This channel also gives us the opportunity to communicate our product and service lineup and messages through multiple touch points and allows us to serve our customers at relatively modest cost.

*Other Channels.* We have strategies to address the alliance partner, solution provider and personal computer hardware manufacturer channels. Revenue from these channels is currently less significant than revenue from our direct and retail channels, but it is growing. We sell our consumer and small business products and services through selected alliance partners, primarily banks, credit unions, and securities and investment firms. These alliance partners help us reach new customers at the point of transaction and drive growth and market share by extending our online reach. Solution providers combine our products and services with value-added marketing, sales and technical expertise to deliver a complete solution at the local level. Relationships with selected personal computer hardware manufacturers help us attract new customers for our core software offerings.

In our Financial Institutions business, we have joint marketing arrangements with several core processing vendors. They include Fiserv, Inc., Open Solutions, Inc., Fidelity Information Services, Inc., Metavante Corporation and Computer Services Inc. To deliver bill payment and bill presentment services to our financial institution customers, we also maintain value-added reseller relationships with major providers such as Metavante Corporation and CheckFree Corporation (part of Fiserv).

**COMPETITION*****Overview***

We face intense competition in all of our businesses, both domestically and internationally. Competitive interest and expertise in many of the markets we serve, particularly small business, consumer tax and online banking, have grown markedly over the past few years and we expect this trend to continue. Some of our existing competitors have significantly greater financial, technical and marketing resources than we do. In addition, the competitive landscape can shift rapidly as new companies enter markets in which we compete. This is particularly true for online products and services, where the barriers to entry are lower than they are for desktop software products and services. To attract customers, many online competitors are offering free or low-priced entry-level products which we must take into account in our pricing strategies.

Our most obvious competition comes from other companies that offer technology solutions similar to ours. However, for many of our products and services, other important competitive alternatives for customers are third party service providers such as professional accountants and seasonal assisted tax preparation businesses. Manual tools and processes, or general-purpose software, are also important competitive alternatives. Many of our new customers previously used pencil and paper or software such as word processors and spreadsheets, rather than competitors software and services, to perform financial tasks. We believe that there is a long-term trend away from manual methods and toward the use of both desktop and online software to accomplish these tasks that will continue to provide growth opportunities.

***Competition Specific to Business Segments***

*Small Business Group.* Our QuickBooks desktop product is the leading small business financial management software at retail. Our small business products and services face competitive challenges from companies such as NetSuite Inc. and The Sage Group plc, that offer software and associated services that directly target small business customers. Increasingly, our small business products and services also face competition from free or low cost online accounting offerings as well as free online banking and bill payment services offered by financial institutions and others. In our payroll business we compete directly with Automatic Data Processing, Inc. (ADP), Paychex and many other companies with payroll offerings. In our merchant services business we also compete directly with large financial institutions such as Wells Fargo, JP Morgan Chase and Bank of America and with many independent sales organizations, including First Data Corporation, Elavon, Global Payments and FIS-Certegy.

*Consumer Tax.* In the private sector we face intense competition from H&R Block, which provides assisted tax preparation services in its stores and a competing software offering called TaxCut, and from several other tax preparation service providers and online offerings, including 2nd Story Software's TaxACT. These competing offerings subject us to significant price pressure.





**Table of Contents**

We also face competitive challenges in our Consumer Tax business from publicly funded government entities that offer electronic tax preparation and filing services at no cost to individual taxpayers. We are a member of the Free File Alliance, a consortium of private sector companies that has entered into an agreement with the federal government. Under this agreement, the member companies provide online federal tax preparation and filing services at no cost to eligible federal taxpayers, and the federal government has agreed not to provide a competing service. Approximately 20 states have also adopted Free File Alliance public-private agreements while approximately 20 other states offer some form of direct government tax preparation and filing services free to qualified taxpayers. We continue to actively work with others in the private and public sectors to advance the goals of the Free File Alliance policy initiative and to support successful public-private partnerships. However, future administrative, regulatory or legislative activity in this area could harm our Consumer Tax business.

*Accounting Professionals.* Our ProSeries professional tax offerings face competition from CCH's ATX and TaxWise offerings. Our Lacerte professional tax offerings face competition from competitively-priced tax and accounting solutions that include integration with non-tax functionality. These include CCH's ProSystems fx Office Suite and Thomson Reuters' CS Professional Suite and GoSystems Tax. We also face growing competition from online tax and accounting offerings, which may be marketed more effectively or have lower pricing than our offerings for accounting professionals.

*Financial Institutions.* The market for Internet banking services is highly competitive. In the area of consumer Internet banking, a number of companies offer outsourced online banking services to financial institutions, including: Online Resources, S1 Corporation and FundsXpress (a subsidiary of First Data Corporation). In addition, several companies whose primary offerings are core processing or bill payment processing services also provide online banking services. These companies include Fiserv, Inc., Open Solutions, Inc., Fidelity Information Services, Inc., Jack Henry and Metavante Corporation. In addition, many of these firms offer our products through a referral or reseller arrangement with us. We also compete for new customers with relatively recent entrants into the online financial management solutions market. As we negotiate service contract renewals with current customers, competitive pressures may require us to make concessions on pricing and other material terms to convince these customers to remain with us.

***Competitive Factors***

We believe the most important competitive factors for our core software products—QuickBooks, TurboTax, Lacerte, ProSeries and Quicken—are ease of use, product features, size of the installed customer base, brand name recognition, value proposition, cost, and product and support quality. Access to distribution channels is also important for our QuickBooks, TurboTax and Quicken products. In addition, support from accounting professionals and the ability for customers to upgrade within product families as their businesses grow are significant competitive factors for our QuickBooks products. Productivity is also an important competitive factor for the full-service accounting firms to which we market our Lacerte products. We believe we compete effectively on these factors as our QuickBooks, TurboTax, and Quicken products are the leading products in the retail sales channel for their respective categories. For our service offerings such as small business payroll, merchant payment processing services and outsourced online banking, features and ease of use, the integration of these products with related software, brand name recognition, effective distribution, quality of support, cost and scalability of operations are important competitive factors.

**CUSTOMER SERVICE AND TECHNICAL SUPPORT**

We provide customer service and technical support by telephone, e-mail, online chat, online communities, and our customer service and technical support Web sites. We have full-time and outsourced customer service and technical support staffs. We supplement these staffs with seasonal employees and additional outsourcing during periods of peak call volumes, such as during the tax return filing season or following a major product launch. We outsource to several firms domestically and internationally. Most of our internationally outsourced consumer and small business customer service and technical support personnel are currently located in India and the Philippines.

**Table of Contents**

We offer free self-help information through our technical support Web sites for our QuickBooks, TurboTax, Accounting Professionals and Quicken software products. Customers use our Web sites to find answers to commonly asked questions and check on the status of orders. Under certain support plans, customers can also use our Web sites to receive product updates electronically. Support alternatives and fees vary by product. We also sponsor online user communities, such as Intuit Community for small businesses and accounting professionals and TurboTax Live Community, where customers can share knowledge and product advice with each other.

**MANUFACTURING AND DISTRIBUTION**

***Desktop Software and Supplies***

The main steps involved in manufacturing desktop software are manufacturing compact discs (CDs), printing boxes and related materials, and assembling and shipping the final products.

For retail manufacturing, we have an agreement with Arvato Digital Services, Inc. (ADiS), a division of Bertelsmann AG, under which ADiS provides a majority of the manufacturing volume for our launches of QuickBooks, TurboTax and Quicken, as well as for day-to-day replenishment after product launches. ADiS has operations in multiple locations that can provide redundancy if necessary. We also have an agreement with JVC America Inc. under which JVC provides secondary outsourced manufacturing volume for these launches and for day-to-day replenishment.

For retail distribution, we have an agreement with ADiS under which ADiS handles all logistics services. Our retail product launches are operationally complex. Our model for product delivery for retail launches and replenishment is a hybrid of direct to store deliveries and shipments to central warehouse locations. This allows improved inventory management by our retailers. We also ship products for many of our smaller retail customers through distributors. ADiS also provides most of the manufacturing volume and distribution services for our direct desktop software orders. We have an exclusive agreement with Harland Clarke, a division of M&F Worldwide Corporation, to fulfill orders for all of our printed checks and most other products for our financial supplies business.

We have multiple sources for all of our raw materials and availability has historically not been a significant problem for us.

Prior to major product releases for our core desktop software products we tend to have significant levels of backlog, but at other times backlog is minimal and we typically ship products within a few days of receiving an order. Because of this fluctuation in backlog, we believe that backlog is not a reliable predictor of our future core desktop software sales.

***Internet-Based Products and Services***

Intuit's data centers house most of the systems, networks and databases required to operate and deliver our Internet-based products and services. These include QuickBooks Online, online payroll services, merchant payment processing services, Web site hosting services for small businesses, TurboTax Online, consumer and professional electronic tax filing services, Digital Insight outsourced online banking services, and Quicken Online. Through our data centers, we connect customers to our products and services and store customer and business information. As our businesses continue to move toward delivering more online products and services in conjunction with our Connected Services strategy, our infrastructure will become even more critical in the future. Currently we have a number of data centers primarily located in the western United States. Over time we expect to transition to fewer data centers in more geographically diverse locations. In fiscal 2008 and 2009 we built a new data center in Washington state that we began occupying in the second half of fiscal 2009. We expect this data center to support the hosting and high availability requirements of many of our existing and future connected services offerings.

**Table of Contents**

**PRIVACY AND SECURITY OF CUSTOMER INFORMATION AND TRANSACTIONS**

We are subject to various federal, state and international laws and regulations and to financial institution requirements relating to the privacy and security of customer and employee personal information. We are also subject to laws and regulations that apply to the Internet, behavioral tracking, telemarketing, email activities and credit reporting.

Additional laws in all of these areas are likely to be passed in the future, which could result in significant limitations on or changes to the ways in which we can collect, use, store or transmit the personal information of our customers or employees, communicate with our customers, and deliver products and services, or may significantly increase our compliance costs. If our business expands to new industry segments and new uses of data that are regulated for privacy and security, or to countries outside the United States that have strict data protections laws, our compliance requirements and costs will increase.

Through a Master Privacy Policy Framework designed to be consistent with globally recognized privacy principles, we comply with United States federal and other country guidelines and practices to help ensure that customers and employees are aware of, and can control, how we use information about them. Our primary Web sites, such as QuickBooks.com and TurboTax.com, have been certified by TRUSTe, an independent organization that operates a Web site privacy certification program representing industry standard practices to address users' and regulators' concerns about online privacy. We also use privacy statements to provide notice to customers of our privacy practices, as well as provide them the opportunity to furnish instructions with respect to use of their personal information. We participate in industry groups whose purpose is to influence public policy and industry best practices for privacy and security.

To address security concerns, we use security safeguards to help protect the systems and the information customers give to us from loss, misuse and unauthorized alteration. Whenever customers transmit sensitive information, such as a credit card number or tax return data, to us through one of our Web sites we use industry standards to encrypt the data as it is transmitted to us. We work to protect our systems from unauthorized internal or external access using numerous commercially available computer security products as well as internally developed security procedures and practices.

**GOVERNMENT REGULATION**

The financial services industry is subject to extensive and complex federal and state regulation. Our financial institution customers, which include commercial banks and credit unions, operate in markets that are subject to rigorous regulatory oversight and supervision. The compliance of our products and services with these requirements depends on a variety of factors including the particular functionality, the interactive design and the charter or license of the financial institution. Our financial services customers must independently assess and determine what is required of them under these regulations and are responsible for ensuring that our systems and the design of their Web sites conform to their regulatory obligations.

Our Digital Insight subsidiary is not directly subject to federal or state regulations specifically applicable to financial institutions such as banks and credit unions. However, as a provider of services to financial institutions, our Digital Insight subsidiary is examined by the Federal Financial Institution Examination Council under the Information Technology examination guidelines. Although we believe we are not subject to direct supervision by federal and state banking agencies with regard to other regulations, we have from time to time agreed to examinations of our business and operations by these agencies.

Our Consumer Tax and Accounting Professionals businesses are also subject to federal and state government requirements, including regulations related to the electronic filing of tax returns, the provision of tax preparer assistance and the use and disclosure of customer information. In addition, we offer certain other products and services, such as small business payroll, which are subject to special regulatory requirements. As we expand our financial institutions, tax and small business products and services, we may become subject to additional government regulation. New laws or regulations may be adopted in these areas that could impose significant limitations on our business and increase our cost of compliance. We continually analyze new business opportunities, both domestically and internationally, and new businesses that we pursue may require additional costs for regulatory compliance.

**Table of Contents**

We are subject to federal and state laws and government regulations concerning employee safety and health and environmental matters. The Occupational Safety and Health Administration, the Environmental Protection Agency, and other federal and state agencies have the authority to put regulations in place that may have an impact on our operations.

**INTELLECTUAL PROPERTY**

Our success depends on our proprietary technology embodied in our offerings. We protect this proprietary technology by relying on a variety of intellectual property mechanisms, including copyright, patent, trade secret and trademark laws, restrictions on disclosure and other methods. For example, we regularly file applications for patents, copyrights and trademarks and service marks in order to protect intellectual property that we believe is important to our business. We currently hold a small but growing patent portfolio. We also have a number of registered trademarks that include Intuit, QuickBooks, TurboTax, Lacerte, ProSeries, Digital Insight and Quicken. We have registered these and other trademarks and service marks in the United States and, depending on the relevance of each brand to other markets, in many foreign countries. Most registrations can be renewed perpetually at 10-year intervals. We also license intellectual property from third parties for use in our products.

Although our portfolio of patents is growing, the patents that have been issued to us could be determined to be invalid and may not be enforceable against competitive products in every jurisdiction. In addition, third parties have asserted and may, in the future, assert infringement claims against us. These claims and any litigation may result in invalidation of our proprietary rights or a finding of infringement against us along with an assessment of damages. Litigation, even if without merit, could result in substantial costs and diversion of resources and management attention. In addition, third party licenses may not continue to be available to us on commercially acceptable terms, or at all.

**EMPLOYEES**

As of July 31, 2009, we had approximately 7,800 employees in major offices in the United States, Canada, India, the United Kingdom and other locations. We believe our future success and growth will depend on our ability to attract and retain qualified employees in all areas of our business. We do not currently have any collective bargaining agreements with our employees, and we believe employee relations are generally good. Although we have employment-related agreements with a number of key employees, these agreements do not guarantee continued service. We believe we offer competitive compensation and a good working environment. We were named one of *Fortune* magazine's 100 Best Companies to Work For in each of the last eight years. However, we face intense competition for qualified employees, and we expect to face continuing challenges in recruiting and retention.

**Table of Contents**

**ITEM 1A**

**RISK FACTORS**

***Forward-Looking Statements and Risk Factors***

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

our expectations and beliefs regarding future conduct and growth of the business;

our expectations regarding competition and our ability to compete effectively;

our expectations regarding the development of future products, services and technology platforms and our research and development efforts;

our intention to create easy-to-use connected services that solve customer problems while building durable competitive advantage;

the assumptions underlying our critical accounting policies and estimates, including our estimates regarding product rebate and return reserves; stock volatility and other assumptions used to estimate the fair value of share-based compensation; and expected future amortization of purchased intangible assets;

our belief that the investments that we hold are not other-than-temporarily impaired;

our belief that the reduction in liquidity of the municipal auction rate securities we hold will not have a material impact on our overall ability to meet our liquidity needs;

our belief that our exposure to currency exchange fluctuation risk will not be significant in the future;

our assessments and estimates that determine our effective tax rate;

our belief that our income tax valuation allowance is sufficient;

our belief that our cash and cash equivalents, investments and cash generated from operations will be sufficient to meet our working capital, capital expenditure and other liquidity requirements for at least the next 12 months;

our belief that long-term trends toward the use of both desktop and online software will provide future growth opportunities;

our belief that our facilities are adequate for our near-term needs and that we will be able to locate additional facilities as needed; and

our assessments and beliefs regarding the future outcome of pending legal proceedings and the liability, if any, that Intuit may incur as a result of those proceedings.

We caution investors that forward-looking statements are only predictions based on our current expectations about future events and are not guarantees of future performance. We encourage you to read carefully all information provided in this report and in our other filings with the SEC before deciding to invest in our stock or to maintain or change your investment. These forward-looking statements are based on information as of the filing date of this

Annual Report, and we undertake no obligation to revise or update any forward-looking statement for any reason. Because forward-looking statements involve risks and uncertainties, there are important factors that may cause actual results to differ materially from those contained in the forward-looking statements. These factors include the following:

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

We face intense competition in all of our businesses, and we expect competition to remain intense in the future. The number, resources and sophistication of the companies with whom we compete have increased as we continue to expand our product and service offerings. Our competitors, whether new or well-established, may introduce superior products and services, reduce prices, gain better access to distribution

**Table of Contents**

channels, have greater technical, marketing and other resources, have greater name recognition, have larger installed bases of customers, have well-established relationships with our current and potential customers, advertise aggressively or beat us to market with new products and services. We also face intensified competition from providers of free online and desktop accounting, tax, banking and other financial services. In order to compete, we have also introduced free offerings in several categories, but we may not be able to attract customers or effectively monetize all of these offerings, and customers who have formerly paid for Intuit's products and services may elect to use free offerings instead. These competitive factors may diminish our revenue and profitability, and harm our ability to acquire and retain customers.

Our consumer tax business faces significant competition from both the public and private sector. In the public sector we face the risk of federal and state taxing authorities developing software or other systems to facilitate tax return preparation and electronic filing at no charge to taxpayers. These or similar programs may be introduced or expanded in the future, which may cause us to lose customers and revenue. Although the Free File Alliance has kept the federal government from being a direct competitor to Intuit's tax offerings, it has fostered additional online competition and may cause us to lose significant revenue opportunities. In addition, taxpayers who formerly have paid for Intuit's products may elect to use Intuit's or our competitors' free federal service instead. The current agreement with the Free File Alliance is scheduled to expire in October 2009. Although we are in negotiations with the IRS and other members of the Free File Alliance to renew this agreement there is no guarantee an agreement will be reached prior to its termination. If the IRS chose not to renew this agreement or terminated the agreement and elected to provide government software and electronic filing services to taxpayers at no charge, or if the federal government significantly altered the Free File Alliance or required the provision of government tax filing services directly to taxpayers, our revenue and profits may suffer. See the discussion on the Free File Alliance in Item 1, *Business Competition*. We anticipate that governmental encroachment may present a continued competitive threat to our business for the foreseeable future.

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

The Software as a Service (SaaS) and desktop software industries are characterized by rapidly changing technology, evolving industry standards and frequent new product introductions. As we continue to grow our SaaS and other offerings, we must continue to innovate and develop new products and features to meet changing customer needs and attract and retain talented software developers. We need to continue to develop our skills, tools and capabilities to capitalize on existing and emerging technologies. We are currently in the process of updating the software platforms related to a number of our offerings. If we experience prolonged delays or unforeseen difficulties in upgrading our systems and architecture, we may not be able to develop new offerings and enhancements that we need to remain competitive.

A number of our businesses also derive a significant amount of their revenue from one-time upfront license fees and rely on customer upgrades and service offerings to generate a significant portion of their revenues. In addition, our consumer and professional tax businesses depend significantly on revenue from customers who return each year to use our updated tax preparation and filing software and services. As our existing products mature, encouraging customers to purchase product upgrades becomes more challenging unless new product releases provide features and functionality that have meaningful incremental value. If we are not able to develop and clearly demonstrate the value of new or upgraded products or services to our customers, our revenues may be harmed.

In some cases, we may expend a significant amount of resources and management attention on products or services that do not ultimately succeed in their markets. We have encountered difficulty in launching new products and services in the past. If we misjudge customer needs in the future, our new products and services may not succeed and our revenues and earnings may be harmed.

**Table of Contents**

***As our product and service offerings become more complex our revenue streams may become less predictable.***

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

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

As we continue to grow our online services, we become more dependent on the continuing operation and availability of our information technology and communication systems and those of our external service providers. Any damage to or failure of our systems may result in interruptions in our service, which may reduce our revenues and profits, cause us to lose customers and damage our brand. In particular, any prolonged interruptions in our online tax preparation or electronic filing services, or in any electronic filing systems operating by the government, at any time during the tax season may result in lost customers, additional refunds of customer charges, negative publicity and increased operating costs, any of which may significantly harm our business, financial condition and results of operations. Although we have implemented practices designed to maintain the availability of our online products and services and mitigate the harm of any unplanned interruptions, we do not have complete redundancy for all of our systems, and our disaster recovery planning may not account for all eventualities. Despite our efforts to maintain continuous and reliable server operations, we occasionally experience unplanned outages or technical difficulties. Due to our evolving business needs, in fiscal 2008 and 2009 we built a new data center in Washington state to support our longer term hosting requirements. We began occupying this data center in the second half of fiscal 2009. If we do not execute the transition to the new data center in an effective manner, we may experience unplanned service disruptions or unforeseen increases in cost which may harm our operating results and our business. We do not maintain real-time back-up of all our data, and in the event of significant system disruption, particularly during peak tax filing season, we may experience loss of data or processing capabilities, which may cause us to lose customers and may materially harm our reputation and our operating results.

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

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

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

The recent global economic downturn has caused disruptions and extreme volatility in global financial markets and increased rates of default and bankruptcy, and has impacted consumer and small business spending. These macroeconomic developments may continue to negatively affect our business and financial condition. Many customers may delay or reduce technology purchases. This may result in reductions in sales of our products, slower adoption of new technologies and upgrades to existing technologies and increased price competition. Decreased consumer spending levels may also reduce credit and debit card transaction processing volumes causing reductions





**Table of Contents**

in our payments revenue. Weakness in the end-user market may negatively affect the cash flow of our distributors and resellers who may, in turn, delay paying their obligations to us, which may increase our credit risk exposure and cause delays in our recognition of revenue or future sales to these customers. If economic or other factors cause financial institutions to fail or macro-economic factors affecting banks, credit unions, mortgage lenders and other financial institutions lead to cost-cutting efforts, we may lose current or potential customers or achieve less revenue per customer and our revenues may suffer. Continued consolidation of the banking and financial services industry, whether due to failures of financial institutions or other factors, may result in a smaller market for our products and services and may cause us to lose relationships with key customers. Any of these events may likely harm our business and our future financial results.

***The nature of our products necessitates timely product launches and if we experience significant product quality problems or delays, it may harm our revenue, earnings and reputation.***

All of our tax products and many of our non-tax products have rigid development timetables that increase the risk of errors in our products and the risk of launch delays. Our tax preparation software product development cycle is particularly challenging due to the need to incorporate unpredictable tax law and tax form changes each year and because our customers expect high levels of accuracy and a timely launch of these products to prepare and file their taxes by the tax filing deadline. Due to the complexity of our products and the condensed development cycles under which we operate, our products sometimes contain bugs that may unexpectedly interfere with the operation of the software. When we encounter problems we may be required to modify our code, distribute patches to customers who have already purchased the product and recall or repackage existing product inventory in our distribution channels. If we encounter development challenges or discover errors in our products late in our development cycle it may cause us to delay our product launch date. Any major defects or launch delays may lead to loss of customers and revenue, negative publicity, customer and employee dissatisfaction, reduced retailer shelf space and promotions, and increased operating expenses, such as inventory replacement costs, legal fees or payments resulting from our commitment to reimburse penalties and interest paid by customers due solely to calculation errors in our consumer tax preparation products.

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

A number of our businesses collect, use and retain large amounts of personal customer information, including credit card numbers, tax return information, bank account numbers and passwords, personal and business financial data, social security numbers and other payroll information. We may also develop new business models that use personal information, or data derived from personal information, in innovative and novel ways. In addition, we collect and maintain personal information of our employees in the ordinary course of our business. Some of this personal customer and employee information is held and some transactions are executed by third parties. In addition, as many of our products and services are Web based, the amount of data we store for our users on our servers (including personal information) has been increasing. We and our vendors use commercially available security technologies to protect transactions and personal information. We use security and business controls to limit access and use of personal information. However, a third party may be able to circumvent these security and business measures, and errors in the storage, use or transmission of personal information may result in a breach of customer or employee privacy or theft of assets, which may require notification under applicable data privacy regulations. We employ contractors, temporary and seasonal employees who may have access to the personal information of customers and employees or who may execute transactions in the normal course of their duties. While we conduct necessary and appropriate background checks of these individuals and limit access to systems and data, it is possible that one or more of these individuals may circumvent these controls, resulting in a security breach.

The ability to execute transactions and the possession and use of personal information in conducting our business subjects us to legislative and regulatory burdens that may require notification to customers or employees of a security breach, restrict our use of personal information and hinder our ability to acquire new customers or market to existing customers. As our business continues to expand to new industry segments that may be more highly regulated for privacy and data security, and to countries outside the U.S. that have more strict data protection laws, our complia