INTUIT INC
Form 10-Q
December 04, 2009

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

FORM 10-Q

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

For the quarterly period ended October 31, 2009

OR

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

For the transition period from __________ to __________.

Commission File Number 0-21180

INTUIT INC.

(Exact name of registrant as specified in its charter)

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

2700 Coast Avenue, Mountain View, CA 94043

(Address of principal executive offices)

(650) 944-6000

(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. 316,760,854 shares of Common Stock, $0.01 par value, were outstanding at November 23, 2009.

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PART I
ITEM 1
FINANCIAL STATEMENTS

INTUIT INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share amounts; unaudited)	Three Months Ended October 31, 2009	Three Months Ended October 31, 2008
Net revenue:		
Product	$ 206	$ 220
Service and other	287	261
Total net revenue	493	481
Costs and expenses:		
Cost of revenue:		
Cost of product revenue	35	33
Cost of service and other revenue	119	112
Amortization of purchased intangible assets	22	15
Selling and marketing	185	186
Research and development	143	136
General and administrative	78	65
Acquisition-related charges	10	10
Total costs and expenses	592	557
Operating loss	(99)	(76)
Interest expense	(16)	(12)
Interest and other income (expense)	5	(1)
Loss before income taxes	(110)	(89)
Income tax benefit	(42)	(37)
Net loss	$ (68)	$ (52)
Basic and diluted net loss per share	$ (0.21)	$ (0.16)
Shares used in basic and diluted per share calculations	320	323

See accompanying notes.

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INTUIT INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions; unaudited)	**October 31, 2009**	**July 31, 2009**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 313	$ 679
Investments	614	668
Accounts receivable, net	160	147
Income taxes receivable	98	67
Deferred income taxes	91	92
Prepaid expenses and other current assets	67	43
Current assets before funds held for customers	1,343	1,696
Funds held for customers	293	272
Total current assets	1,636	1,968
Long-term investments	92	97
Property and equipment, net	522	529
Goodwill	1,824	1,826
Purchased intangible assets, net	258	293
Long-term deferred income taxes	41	36
Other assets	81	77
Total assets	$ 4,454	$ 4,826
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 114	$ 105
Accrued compensation and related liabilities	118	175
Deferred revenue	355	378
Other current liabilities	140	154
Current liabilities before customer fund deposits	727	812
Customer fund deposits	293	272
Total current liabilities	1,020	1,084
Long-term debt	998	998
Other long-term obligations	164	187
Total liabilities	2,182	2,269

Commitments and contingencies				
Stockholders equity:				
Preferred stock				
Common stock and additional paid-in capital		2,565		2,547
Treasury stock, at cost		(3,059)		(2,846)
Accumulated other comprehensive income		7		7
Retained earnings		2,759		2,849
Total stockholders equity		2,272		2,557
Total liabilities and stockholders equity	$	4,454	$	4,826

See accompanying notes.

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INTUIT INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Dollars in millions; shares in thousands; unaudited)	**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, 2009	**322,766**	**$ 2,547**	**$ (2,846)**	**$ 7**	**$ 2,849**	**$ 2,557**
Components of comprehensive net loss:						
Net loss					(68)	(68)
Other comprehensive loss, net of tax						
Comprehensive net loss						(68)
Issuance of common stock under employee stock plans	3,056		67		(2)	65
Restricted stock units released, net of taxes	954	(15)	20		(20)	(15)
Stock repurchases under stock repurchase programs	(10,565)		(300)			(300)
Tax benefit from employee stock option transactions		6				6
Share-based compensation		27				27
Balance at October 31, 2009	**316,211**	**$ 2,565**	**$ (3,059)**	**$ 7**	**$ 2,759**	**$ 2,272**

(Dollars in millions; shares in thousands; unaudited)	**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, 2008	**322,600**	**$ 2,415**	**$ (2,787)**	**$ 8**	**$ 2,444**	**$ 2,080**
Components of comprehensive net loss:						
Net loss					(52)	(52)
Other comprehensive loss, net of tax				(7)		(7)
Comprehensive net loss						(59)
Issuance of common stock under employee stock plans	3,864		83		(6)	77

Restricted stock units released, net of taxes	723	(12)	16		(16)	(12)
Stock repurchases under stock repurchase programs	(6,021)		(165)			(165)
Tax benefit from employee stock option transactions		11				11
Share-based compensation		22				22
Balance at October 31, 2008	**321,166**	**$ 2,436**	**$ (2,853)**	**$ 1**	**$ 2,370**	**$ 1,954**

See accompanying notes.

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INTUIT INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended	
(In millions; unaudited)	**October 31, 2009**	**October 31, 2008**
Cash flows from operating activities:		
Net loss	$ (68)	$ (52)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	39	33
Amortization of intangible assets	36	27
Share-based compensation	27	22
Deferred income taxes	(24)	45
Tax benefit from share-based compensation plans	6	11
Excess tax benefit from share-based compensation plans	(3)	(6)
Other	4	5
Total adjustments	85	137
Changes in operating assets and liabilities:		
Accounts receivable	(13)	(17)
Prepaid expenses, income taxes receivable and other assets	(56)	(121)
Accounts payable	9	22
Accrued compensation and related liabilities	(57)	(113)
Deferred revenue	(24)	(18)
Income taxes payable		(14)
Other liabilities	(16)	(24)
Total changes in operating assets and liabilities	(157)	(285)
Net cash used in operating activities	**(140)**	**(200)**
Cash flows from investing activities:		
Purchases of available-for-sale debt securities	(388)	(36)
Sales of available-for-sale debt securities	322	148
Maturities of available-for-sale debt securities	36	11
Net change in funds held for customers money market funds and other cash equivalents	66	283
Purchases of property and equipment	(32)	(67)
Net change in customer fund deposits	21	(283)
Other	(3)	2
Net cash provided by investing activities	**22**	**58**
Cash flows from financing activities:		

Net proceeds from issuance of common stock under stock plans	65	77
Tax payments related to restricted stock issuance	(15)	(12)
Purchase of treasury stock	(300)	(165)
Excess tax benefit from share-based compensation plans	3	6
Other	(1)	
Net cash used in financing activities	**(248)**	**(94)**
Effect of exchange rates on cash and cash equivalents		(8)
Net decrease in cash and cash equivalents	**(366)**	**(244)**
Cash and cash equivalents at beginning of period	679	413
Cash and cash equivalents at end of period	**$ 313**	**$ 169**

See accompanying notes.

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

1. Description of Business, Basis of Presentation and Summary of Significant Accounting Policies

Description of Business

Intuit Inc. provides 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 tax preparation offerings for professional accountants. Our financial institutions division, anchored by Digital Insight, provides outsourced online banking services to banks and credit unions. 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. In July 2009 we acquired PayCycle, Inc. for a total purchase price of approximately $169 million. Accordingly, we have included the results of operations for PayCycle in our consolidated results of operations from the date of acquisition.

These condensed consolidated financial statements also include the financial position, results of operations and cash flows of Superior Bankcard Services, LLC (SBS), an entity that acquires merchant accounts for our Innovative Merchant Solutions business. We are allocated 51% of the earnings and losses of this entity and 100% of the losses in excess of the noncontrolling interest capital balances. We therefore eliminate the portion of the SBS financial results that pertains to the noncontrolling interests in our statements of operations and on our balance sheets. The amounts eliminated were not material for any period presented. The operating agreement of SBS outlines a process for noncontrolling members and IMS to negotiate a buyout of the noncontrolling members interests. This process began in July 2009. If the parties are not able to reach agreement, the SBS operating agreement provides for a possible sale of SBS to a third party. See Note 7.

We have included all adjustments, consisting only of normal recurring items, that we considered necessary for a fair presentation of our financial results for the interim periods presented. These unaudited condensed consolidated financial statements and accompanying notes should be read together with the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended July 31, 2009. Results for the three months ended October 31, 2009 do not necessarily indicate the results we expect for the fiscal year ending July 31, 2010 or any other future period.

We have reclassified certain amounts previously reported in our financial statements to conform to the current presentation, including amounts related to reportable segments. We have evaluated subsequent events through the date and time these financial statements were issued on December 4, 2009.

Seasonality

Our QuickBooks, Consumer Tax and Accounting Professionals businesses 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. 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.

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, 2009. On August 1, 2009 we adopted the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) as the sole source for authoritative guidance. On August 1, 2009 we also adopted certain authoritative guidance on fair value measurements for nonfinancial assets and nonfinancial liabilities and on business combinations that affected our significant accounting policies. See *Fair Value of Nonfinancial Assets and Nonfinancial Liabilities* and *Business Combinations* below. There have been no other changes to our significant accounting policies during fiscal 2010.

Fair Value of Nonfinancial Assets and Nonfinancial Liabilities
We describe our accounting policies for the valuation of goodwill, purchased intangible assets and other long-lived assets in *Goodwill, Purchased Intangible Assets and Other Long-Lived Assets* 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, 2009. On August 1, 2009 we adopted the provisions of the authoritative guidance on fair value measurements for nonfinancial assets and nonfinancial liabilities that we do not recognize or disclose at fair value on a recurring basis (at least annually). These include reporting units measured at fair value in a goodwill impairment test, other nonfinancial assets or liabilities measured at fair value for impairment testing, and nonfinancial assets acquired and liabilities assumed in a business combination. In accordance with this guidance, we define fair value as the price that would be received from the sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. As a result, we now estimate the fair values of these assets and liabilities from the perspective of a market participant rather than from an entity-specific perspective. In addition, we consider and use all valuation methods that are appropriate in estimating the fair value of these assets and liabilities. See Note 2, *Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis,* for information on the impact of our adoption of this guidance.

Business Combinations
On August 1, 2009 we adopted the acquisition method of accounting for business combinations. The acquisition method of accounting requires us to use significant estimates and assumptions, including fair value estimates, as of the business combination date and to refine those estimates as necessary during the measurement period (defined as the period, not to exceed one year, in which we may adjust the provisional amounts recognized for a business combination) in a manner that is generally similar to the previous purchase method of accounting.

Under the acquisition method of accounting we recognize separately from goodwill the identifiable assets acquired, the liabilities assumed, and any noncontrolling interests in an acquiree, generally at the acquisition date fair value. We measure goodwill as of the acquisition date as the excess of consideration transferred, which we also measure at fair value, over the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed. Costs that we incur to complete the business combination such as investment banking, legal and other professional fees are not considered part of consideration and we charge them to general and administrative expense as they are incurred. Under the acquisition method we also account for acquired company restructuring activities that we initiate separately from the business combination.

Should the initial accounting for a business combination be incomplete by the end of a reporting period that falls within the measurement period, we report provisional amounts in our financial statements. During the measurement period, we adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date and we record those adjustments to our financial statements. We apply those measurement period adjustments that we determine to be significant retrospectively to comparative information in our financial statements, including adjustments to depreciation and amortization expense.

Under the acquisition method of accounting for business combinations, if we identify changes to deferred tax asset valuation allowances or liabilities related to uncertain tax positions during the measurement period and they relate to new information obtained about facts and circumstances that existed as of the acquisition date, those changes are considered a measurement period adjustment and we record the offset to goodwill. We record all other changes to deferred tax asset valuation allowances and liabilities related to uncertain tax positions in current period income tax expense. This accounting applies to all of our acquisitions regardless of acquisition date.

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Other Accounting Pronouncements Adopted in the Current Period

On August 1, 2009 we adopted authoritative guidance for the determination of the useful lives of intangible assets. This guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful lives of recognized intangible assets. Our adoption of this guidance had no impact on our financial position, results of operations or cash flows.

On August 1, 2009 we adopted authoritative guidance for the accounting and reporting of noncontrolling interests in consolidated entities and for the deconsolidation of those entities. As a result of our adoption of this guidance, we retrospectively reclassified the balances for the noncontrolling interest in SBS to stockholders equity for all periods presented. These balances were not significant. The expense that we recorded for the SBS noncontrolling interest was not significant compared with our consolidated financial results for any period presented and we have therefore included it in interest and other income in our statements of operations.

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 include 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 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 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.

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

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

(In millions, except per share amounts)	**Three Months Ended October 31, 2009**	**Three Months Ended October 31, 2008**
Numerator:		
Net loss	$ (68)	$ (52)
Denominator:		
Shares used in basic and diluted per share amounts:		
Weighted average common shares outstanding	320	323
Basic and diluted net loss per share:		
Basic and diluted net loss per share	$ (0.21)	$ (0.16)
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	27	32
Weighted average stock options and restricted stock units excluded from calculation due to anti-dilutive effect	26	23
	53	55

Significant Customers

No customer accounted for 10% or more of total net revenue in the three months ended October 31, 2009 or 2008. No customer accounted for 10% or more of total accounts receivable at October 31, 2009 or July 31, 2009.

Recent Accounting Pronouncements

ASU 2009-05, *Measuring Liabilities at Fair Value*

In August 2009 the FASB issued Accounting Standards Update (ASU) No. 2009-05, *Measuring Liabilities at Fair Value.* This update provides amendments to ASC Topic 820, *Fair Value Measurements and Disclosure,* for the fair value measurement of liabilities when a quoted price in an active market is not available. ASU 2009-05 is effective for reporting periods beginning after August 28, 2009, which means that it will be effective for our second fiscal quarter beginning November 1, 2009. We are in the process of evaluating this update and therefore have not yet determined the impact that adoption of ASU 2009-05 will have on our financial position, results of operations or cash flows.

ASU 2009-13, *Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements a Consensus of the FASB Emerging Issues Task Force*

In October 2009 the FASB issued ASU No. 2009-13, *Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements a Consensus of the FASB Emerging Issues Task Force.* This update provides amendments to the criteria in ASC Topic 605, *Revenue Recognition,* for separating consideration in multiple-deliverable arrangements by establishing a selling price hierarchy. The selling price used for each deliverable will be based on vendor-specific objective evidence (VSOE) if available, third-party evidence if VSOE is not available, or estimated selling price if neither VSOE nor third-party evidence is available. ASU 2009-13 also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. ASU 2009-13 is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, which means that it will be effective for our fiscal year beginning August 1, 2010. We are in the process of evaluating this update and therefore have not yet

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determined the impact that adoption of ASU 2009-13 will have on our financial position, results of operations or cash flows.

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 the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. We measure and disclose the fair value of certain assets and liabilities on a recurring basis and other assets and liabilities on a non-recurring basis, as described below. The authoritative guidance establishes a three-level hierarchy for disclosure that is based on the extent and level of judgment used to estimate the fair value of assets and liabilities.

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 for similar assets or li