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

FORM 10-Q

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

For the quarterly period ended October 31, 2020

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

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INTUIT INC.

(Exact name of registrant as specified in its charter)

Delaware	**77-0034661**
(State or other jurisdiction of incorporation or organization)	*(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	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.01 par value	INTU	Nasdaq Global Select Market

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

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

Large accelerated filer	☑	Accelerated filer	☐	Non-accelerated filer	☐	Smaller reporting company	☐	Emerging growth company	☐

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 262,740,511 shares of Common Stock, $0.01 par value, were outstanding at November 13, 2020.

INTUIT INC.
FORM 10-Q
INDEX

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. These risks and uncertainties may be amplified by the coronavirus ("COVID-19") pandemic, which has caused significant global economic instability and uncertainty. The extent to which the COVID-19 pandemic impacts Intuit's business, operations, financial results, and financial condition, including the duration and magnitude of such effects, will depend on numerous evolving factors, which are highly uncertain and cannot be predicted, including, but not limited to, the duration and spread of the pandemic, its severity, the actions to contain the virus or respond to its impact, and how quickly and to what extent normal economic and operating conditions can resume. Please also see the section entitled "Risk Factors" in Item 1A of Part II of this Report for important information to consider when evaluating these 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;
- statements regarding the impact of the COVID-19 pandemic on our business;
- our beliefs and expectations regarding seasonality, competition and other trends that affect our business;
- our expectation that we will continue to invest significant resources in our product development, marketing and sales capabilities;
- our expectation that we will continue to invest significant management attention and resources in our information technology infrastructure and in our privacy and security capabilities;
- our expectation that we will work with the broader industry and government to protect our customers from fraud;
- our expectation that we will generate significant cash from operations;
- our expectation that total service and other revenue as a percentage of our total revenue will continue to grow;
- our expectations regarding the development of future products, services, business models and technology platforms and our research and development efforts;
- our assumptions underlying our critical accounting policies and estimates, including our judgments and estimates regarding revenue recognition; stock volatility and other assumptions used to estimate the fair value of share-based compensation; the fair value of goodwill; and expected future amortization of acquired intangible assets;
- our intention not to sell our investments and our belief that it is more likely than not that we will not be required to sell them before recovery at par;
- our belief that the investments we hold are not other-than-temporarily impaired;
- our belief that we take prudent measures to mitigate investment related risks;
- our belief that our exposure to currency exchange fluctuation risk will not be significant in the future;
- our assessments and estimates that determine our effective tax rate;
- our belief that it is not reasonably possible that there will be a significant increase or decrease in our unrecognized tax benefits over the next 12 months;
- our belief that our cash and cash equivalents, investments and cash generated from operations will be sufficient to meet our seasonal working capital needs, capital expenditure requirements, contractual obligations (including the pending acquisition of Credit Karma, Inc. ("Credit Karma")), debt service requirements and other liquidity requirements associated with our operations for at least the next 12 months;
- our expectation that we will return excess cash generated by operations to our stockholders through repurchases of our common stock and the payment of cash dividends, after taking into account our operating and strategic cash needs;
- our judgments and assumptions relating to our loan portfolio;
- our belief that the credit facilities will be available to us should we choose to borrow under them;
- our assessments and beliefs regarding the future developments and outcomes of pending legal proceedings and inquiries by regulatory authorities, the liability, if any, that Intuit may incur as a result of those proceedings and inquiries, and the impact of any potential losses or expenses associated with such proceedings or inquiries on our financial statements; and
- our expectations and beliefs regarding the pending acquisition of Credit Karma.

We caution investors that forward-looking statements are only predictions based on our current expectations about future events and are not guarantees of future performance. We encourage you to read carefully all information provided in this Quarterly Report and in our other filings with the Securities and Exchange Commission before deciding to invest in our stock or to maintain or change your investment. These forward-looking statements are based on information as of the filing date of this Quarterly Report, and we undertake no obligation to revise or update any forward-looking statement for any reason.

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

INTUIT INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS *(unaudited)*

(In millions, except per share amounts)	Three Months Ended October 31, 2020	Three Months Ended October 31, 2019
Net revenue:		
Product	$ 367	$ 353
Service and other	956	812
Total net revenue	1,323	1,165
Costs and expenses:		
Cost of revenue:		
Cost of product revenue	15	17
Cost of service and other revenue	234	267
Amortization of acquired technology	7	6
Selling and marketing	362	383
Research and development	325	334
General and administrative	169	146
Amortization of other acquired intangible assets	2	2
Total costs and expenses	1,114	1,155
Operating income	209	10
Interest expense	(8)	(2)
Interest and other income, net	9	14
Income before income taxes	210	22
Income tax provision (benefit)	12	(35)
Net income	$ 198	$ 57
Basic net income per share	$ 0.75	$ 0.22
Shares used in basic per share calculations	263	261
Diluted net income per share	$ 0.75	$ 0.22
Shares used in diluted per share calculations	265	264
Cash dividends declared per common share	$ 0.59	$ 0.53

See accompanying notes.

INTUIT INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME *(unaudited)*

(In millions)	Three Months Ended October 31, 2020	Three Months Ended October 31, 2019
Net income	$ 198	$ 57
Other comprehensive income (loss), net of income taxes:		
Unrealized gain (loss) on available-for-sale debt securities	(1)	1
Foreign currency translation loss	(2)	—
Total other comprehensive income (loss), net	(3)	1
Comprehensive income	$ 195	$ 58

See accompanying notes.

INTUIT INC.
CONDENSED CONSOLIDATED BALANCE SHEETS *(unaudited)*

(In millions)	October 31, 2020	July 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,174	$ 6,442
Investments	619	608
Accounts receivable, net	99	149
Income taxes receivable	29	12
Prepaid expenses and other current assets	246	314
Current assets before funds held for customers	6,167	7,525
Funds held for customers	484	455
Total current assets	6,651	7,980
Long-term investments	28	19
Property and equipment, net	743	734
Operating lease right-of-use assets	232	226
Goodwill	1,697	1,654
Acquired intangible assets, net	63	28
Long-term deferred income taxes	60	65
Other assets	233	225
Total assets	$ 9,707	$ 10,931
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 325	$ 1,338
Accounts payable	256	305
Accrued compensation and related liabilities	233	482
Deferred revenue	574	652
Other current liabilities	280	297
Current liabilities before customer fund deposits	1,668	3,074
Customer fund deposits	484	455
Total current liabilities	2,152	3,529
Long-term debt	2,032	2,031
Operating lease liabilities	228	221
Other long-term obligations	50	44
Total liabilities	4,462	5,825
Commitments and contingencies		
Stockholders' equity:		
Preferred stock	—	—
Common stock and additional paid-in capital	6,283	6,182
Treasury stock, at cost	(11,929)	(11,929)
Accumulated other comprehensive loss	(35)	(32)
Retained earnings	10,926	10,885
Total stockholders' equity	5,245	5,106
Total liabilities and stockholders' equity	$ 9,707	$ 10,931

See accompanying notes

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

	Three Months Ended October 31, 2020					
(In millions, except shares in thousands)	Shares of Common Stock	Common Stock and Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
Balance at July 31, 2020	**261,740**	**$ 6,182**	**$ (11,929)**	**$ (32)**	**$ 10,885**	**$ 5,106**
Comprehensive income	—	—	—	(3)	198	195
Issuance of stock under employee stock plans, net of shares withheld for employee taxes	967	(11)		—	—	(11)
Stock repurchases under stock repurchase programs	—	—	—	—	—	—
Dividends and dividend rights declared ($0.59 per share)	—	—	—	—	(157)	(157)
Share-based compensation expense	—	112	—	—	—	112
Balance at October 31, 2020	**262,707**	**$ 6,283**	**$ (11,929)**	**$ (35)**	**$ 10,926**	**$ 5,245**

	Three Months Ended October 31, 2019					
(In millions, except shares in thousands)	Shares of Common Stock	Common Stock and Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
Balance at July 31, 2019	**260,180**	**$ 5,775**	**$ (11,611)**	**$ (36)**	**$ 9,621**	**$ 3,749**
Comprehensive income	—	—	—	1	57	58
Issuance of stock under employee stock plans, net of shares withheld for employee taxes	690	(6)		—	—	(6)
Stock repurchases under stock repurchase programs	(515)	—	(139)	—	—	(139)
Dividends and dividend rights declared ($0.53 per share)	—	—	—	—	(141)	(141)
Share-based compensation expense	—	112	—	—	—	112
Balance at October 31, 2019	**260,355**	**$ 5,881**	**$ (11,750)**	**$ (35)**	**$ 9,537**	**$ 3,633**

See accompanying notes.

INTUIT INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS *(unaudited)*

(In millions)	Three Months Ended October 31, 2020	Three Months Ended October 31, 2019
Cash flows from operating activities:		
Net income	$ 198	$ 57
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	37	49
Amortization of acquired intangible assets	9	8
Non-cash operating lease cost	13	16
Share-based compensation expense	111	111
Deferred income taxes	17	(18)
Other	(16)	4
Total adjustments	171	170
Originations of loans held for sale	(43)	—
Sale and principal payments of loans held for sale	147	—
Changes in operating assets and liabilities:		
Accounts receivable	47	(16)
Income taxes receivable	(17)	(22)
Prepaid expenses and other assets	(38)	(63)
Accounts payable	(58)	(5)
Accrued compensation and related liabilities	(248)	(180)
Deferred revenue	(85)	(68)
Operating lease liabilities	(12)	(14)
Other liabilities	(17)	14
Total changes in operating assets and liabilities	(428)	(354)
Net cash provided by (used in) operating activities	**45**	**(127)**
Cash flows from investing activities:		
Purchases of corporate and customer fund investments	(198)	(207)
Sales of corporate and customer fund investments	30	53
Maturities of corporate and customer fund investments	156	156
Purchases of property and equipment	(38)	(38)
Acquisitions of businesses, net of cash acquired	(85)	—
Originations of term loans to small businesses	(11)	(81)
Principal repayments of term loans from small businesses	29	79
Other	(13)	(19)
Net cash used in investing activities	**(130)**	**(57)**
Cash flows from financing activities:		
Repayments on borrowings under unsecured revolving credit facility	(1,000)	—
Repayment of debt	(13)	(13)
Proceeds from issuance of stock under employee stock plans	88	63
Payments for employee taxes withheld upon vesting of restricted stock units	(99)	(71)
Cash paid for purchases of treasury stock	—	(140)
Dividends and dividend rights paid	(158)	(141)
Net change in customer fund deposits	29	(23)
Net cash used in financing activities	**(1,153)**	**(325)**
Effect of exchange rates on cash, cash equivalents, restricted cash, and restricted cash equivalents	(1)	—

Net decrease in cash, cash equivalents, restricted cash, and restricted cash equivalents	**(1,239)**	**(509)**
Cash, cash equivalents, restricted cash, and restricted cash equivalents at beginning of period	6,697	2,352
Cash, cash equivalents, restricted cash, and restricted cash equivalents at end of period	**$ 5,458**	**$ 1,843**
Reconciliation of cash, cash equivalents, restricted cash, and restricted cash equivalents reported within the condensed consolidated balance sheets to the total amounts reported on the condensed consolidated statements of cash flows		
Cash and cash equivalents	$ 5,174	$ 1,630
Restricted cash and restricted cash equivalents included in funds held for customers	284	213
Total cash, cash equivalents, restricted cash, and restricted cash equivalents at end of period	**$ 5,458**	**$ 1,843**

See accompanying notes.

INTUIT INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

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

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

Basis of Presentation

These condensed consolidated financial statements include the financial statements of Intuit and its wholly owned subsidiaries. We have eliminated all significant intercompany balances and transactions in consolidation. We have included all adjustments, consisting only of normal recurring items, which we considered necessary for a fair presentation of our financial results for the interim periods presented. We have reclassified certain amounts previously reported in our financial statements to conform to the current presentation, including amounts related to reportable segments. In August 2020, we reorganized certain technology and customer success functions that support and benefit our overall platform. Additionally, certain legal, facility and employee service costs are now managed at the corporate level. As a result, these costs are no longer included in segment operating income and are now included in other common expenses. For the three months ended October 31, 2019, we reclassified $43 million from Small Business & Self-Employed, $25 million from Consumer, and $3 million from ProConnect to other common expenses. In August 2020, we also renamed our Strategic Partner segment as the ProConnect segment. This segment continues to serve professional accountants. See Note 11, *"Segment Information,"* for more information.

These unaudited condensed consolidated financial statements and accompanying notes should be read together with the audited consolidated financial statements in Part II, Item 8 of our Annual Report on Form 10-K for the fiscal year ended July 31, 2020. Results for the three months ended October 31, 2020 do not necessarily indicate the results we expect for the fiscal year ending July 31, 2021 or any other future period.

Seasonality

Our Consumer and ProConnect offerings have a significant and distinct seasonal pattern as sales and revenue from our income tax preparation products and services are heavily concentrated in the period from November through April. This seasonal pattern results in higher net revenues during our second and third quarters ending January 31 and April 30, respectively. During fiscal 2020, as a relief measure in response to the COVID-19 pandemic, the Internal Revenue Service extended the filing deadline for the 2019 tax year from April 15, 2020 to July 15, 2020. Additionally, all states with a personal income tax also extended their due dates, predominantly to July. As a result, there was a shift in sales and revenue from our third fiscal quarter to our fourth fiscal quarter during fiscal 2020.

Significant Accounting Policies

We describe our significant accounting policies in Note 1 to the financial statements in Part II, Item 8 of our Annual Report on Form 10-K for the fiscal year ended July 31, 2020. There have been no changes to our significant accounting policies during the first three months of fiscal 2021, other than the adoption of accounting pronouncements as described below in *"Accounting Standards Recently Adopted."*

Use of Estimates

In preparing our condensed consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP), we make certain judgments, estimates, and assumptions that affect the amounts reported in our financial statements and the disclosures made in the accompanying notes. For example, we use judgments and estimates in determining how revenue should be recognized. These judgments and estimates include identifying performance obligations, determining if the performance obligations are distinct, determining the standalone sales price (SSP) and timing of revenue recognition for each distinct performance obligation, and estimating variable consideration to be included in the transaction price. We use estimates in determining the collectibility of accounts receivable and notes receivable, the appropriate levels of various accruals including accruals for litigation contingencies, the discount rate used to calculate lease liabilities, the amount of our worldwide tax provision, the realizability of deferred tax assets, and the credit losses of available-for-sale debt securities. We also use estimates in determining the remaining economic lives and fair values of acquired intangible assets, property and equipment, and other long-lived assets. In addition, we use assumptions to estimate the fair value of reporting units and share-based compensation. Despite our intention to establish accurate estimates and use reasonable assumptions, actual results may differ from our estimates. Additionally, in the context of the ongoing global COVID-19 pandemic, while there has been no material impact on our estimates to date, in future periods, facts and circumstances could change and impact our estimates.

Computation of Net Income (Loss) Per Share

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

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

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

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

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

(In millions, except per share amounts)	Three Months Ended October 31, 2020	Three Months Ended October 31, 2019
Numerator:		
Net income	$ 198	$ 57
Denominator:		
Shares used in basic per share amounts:		
Weighted average common shares outstanding	263	261
Shares used in diluted per share amounts:		
Weighted average common shares outstanding	263	261
Dilutive common equivalent shares from stock options and restricted stock awards	2	3
Dilutive weighted average common shares outstanding	265	264
Basic and diluted net income per share:		
Basic net income per share	$ 0.75	$ 0.22
Diluted net income per share	$ 0.75	$ 0.22
Shares excluded from diluted net income per share:		
Weighted average stock options and restricted stock units that have been excluded from dilutive common equivalent shares outstanding due to their anti-dilutive effect	1	—

Deferred Revenue

Generally, we receive payment at the time we enter into a contract with a customer. We record deferred revenue when we have entered into a contract with a customer and cash payments are received or due prior to transfer of control or satisfaction of the related performance obligation. During the three months ended October 31, 2020, we recognized revenue of $399 million that was included in deferred revenue at July 31, 2020. During the three months ended October 31, 2019, we recognized revenue of $355 million that was included in deferred revenue at July 31, 2019.

Our performance obligations are generally satisfied within 12 months of the initial contract date. As of October 31, 2020 and July 31, 2020, the deferred revenue balance related to performance obligations that will be satisfied after 12 months was $9 million and $13 million, respectively, and is included in other long-term obligations on our condensed consolidated balance sheets.

Notes Receivable and Allowances for Loan Losses

Notes receivable held for investment consist of term loans to small businesses and are included in prepaid expenses and other current assets on our condensed consolidated balance sheets. As of October 31, 2020 and July 31, 2020, the notes receivable balance was $26 million and $40 million, respectively, and the allowances for loan losses were not material. The term loans are not secured and are recorded at amortized cost, net of allowances for loan losses. We maintain an allowance for loan losses to reserve for potentially uncollectible notes receivable. We evaluate the creditworthiness of our loan portfolio on a pooled basis due to its composition of small, homogeneous loans with similar general credit risk and characteristics and apply a loss rate at the time of loan origination. The loss rate and underlying model are updated periodically to reflect actual loan performance and changes in assumptions. We make judgments about the known and inherent risks in the loan portfolio, adverse situations that may affect borrowers' ability to repay and current economic conditions. When we determine that amounts are uncollectible, we write them off against the allowance.

Paycheck Protection Program - In April 2020, Intuit was approved as a non-bank Small Business Administration lender for the Paycheck Protection Program (PPP). The PPP was authorized under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) to provide small businesses loans to pay payroll and group health costs, salaries and commissions, mortgage and rent payments, utilities, and interest on other debt which is designed to provide assistance to small businesses during the COVID-19 pandemic. Lending under the program expired on August 8, 2020. All of the loans held for sale under this program have been sold. When loans under this program do not qualify to be sold, they are held for investment. As of October 31, 2020 and July 31, 2020, PPP loans held for investment were not material and are included in prepaid expenses and other current assets and other assets on our condensed consolidated balance sheets.

Concentration of Credit Risk and Significant Customers

No customer accounted for 10% or more of total net revenue in the three months ended October 31, 2020 or October 31, 2019. No customer accounted for 10% or more of gross accounts receivable at October 31, 2020 or July 31, 2020.

Accounting Standards Recently Adopted

Internal-Use Software - In August 2018 the FASB issued Accounting Standards Update (ASU) 2018-15, "*Intangibles—Goodwill and Other (Topic 350): Internal-Use Software.*' This standard aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. We adopted this standard in the first quarter of our fiscal year beginning August 1, 2020 on a prospective basis. The adoption did not have a material impact on our condensed consolidated financial statements.

Goodwill Impairment - In January 2017 the FASB issued ASU 2017-04, "*Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.*' This standard eliminates Step 2 from the goodwill impairment test. Instead, an entity should compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to the reporting unit. We adopted this standard in the first quarter of our fiscal year beginning August 1, 2020 on a prospective basis and will apply the guidance during our annual goodwill impairment test for the year ending July 31, 2021. The adoption did not have a material impact on our condensed consolidated financial statements.

Financial Instruments - In June 2016 the FASB issued ASU 2016-13, "*Financial Instruments—Credit Losses (Topic 326).*" This standard requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. We adopted this standard in the first quarter of our fiscal year beginning August 1, 2020. The adoption did not have a material impact on our condensed consolidated financial statements.

2. Fair Value Measurements

Fair Value Hierarchy

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	October 31, 2020			July 31, 2020		
(In millions)	Level 1	Level 2	Total Fair Value	Level 1	Level 2	Total Fair Value
Assets:						
Cash equivalents, primarily money market funds and time deposits	$ 4,016	$ —	$ 4,016	$ 5,765	$ —	$ 5,765
Available-for-sale debt securities:						
Municipal bonds	—	17	17	—	9	9
Corporate notes	—	747	747	—	752	752
U.S. agency securities	—	55	55	—	47	47
Total available-for-sale debt securities	—	819	819	—	808	808
Total assets measured at fair value on a recurring basis	$ 4,016	$ 819	$ 4,835	$ 5,765	$ 808	$ 6,573
Liabilities:						
Senior unsecured notes[(1)]	$ —	$ 2,013	$ 2,013	$ —	$ 2,042	$ 2,042

[(1)] Carrying value on our balance sheets at each October 31, 2020 and July 31, 2020 was $1.98 billion. See Note 6 *"Long-Term Obligations and Commitments"* for more information.

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

	October 31, 2020			July 31, 2020		
(In millions)	Level 1	Level 2	Total Fair Value	Level 1	Level 2	Total Fair Value
Cash equivalents:						
In cash and cash equivalents	$ 4,016	$ —	$ 4,016	$ 5,765	$ —	$ 5,765
Available-for-sale debt securities:						
In investments	$ —	$ 619	$ 619	$ —	$ 608	$ 608
In funds held for customers	—	200	200	—	200	200
Total available-for-sale debt securities	$ —	$ 819	$ 819	$ —	$ 808	$ 808

We value our Level 1 assets, consisting primarily of money market funds and time deposits using quoted prices in active markets for identical instruments. Financial assets whose fair values we measure on a recurring basis using Level 2 inputs consist of municipal bonds, corporate notes, and U.S. agency securities. We measure the fair values of these assets with the help of a pricing service that either provides quoted market prices in active markets for identical or similar securities or uses observable inputs for their pricing without applying significant adjustments. Our fair value processes include controls that are designed to ensure that we record appropriate fair values for our Level 2 investments. These controls include comparison to pricing provided by a secondary pricing service or investment manager, validation of pricing sources and models, review of key model inputs, analysis of period-over-period price fluctuations, and independent recalculation of prices where appropriate. Financial assets whose fair values we measure using Level 3 inputs consist of loans held for sale. These loans are recorded at the lower of cost or fair value and totaled $98 million at July 31, 2020. The difference between cost and fair value on that date was not material. We had no loans held for sale at October 31, 2020.

Financial liabilities whose fair values we measure using Level 2 inputs consist of senior unsecured notes. See Note 6, *"Long-Term Obligations and Commitments"* for more information. We measure the fair value of our senior unsecured notes based on their trading prices and the interest rates we could obtain for other borrowings with similar terms.

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the three months ended October 31, 2020.

3. Cash and Cash Equivalents, Investments, and Funds Held for Customers

We consider highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. In all periods presented, cash equivalents consist primarily of money market funds and time deposits. Investments consist primarily of investment-grade available-for-sale debt securities. Funds held for customers represent cash held on behalf of our customers that is invested in cash and cash equivalents and investment-grade available-for-sale securities, restricted for use solely for the purpose of satisfying amounts we owe on behalf of our customers. Except for direct obligations of the United States government, securities issued by agencies of the United States government, and money market funds, we diversify our investments in debt securities by limiting our holdings with any individual issuer.

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

	October 31, 2020		July 31, 2020	
(In millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Classification on condensed consolidated balance sheets:				
Cash and cash equivalents	$ 5,174	$ 5,174	$ 6,442	$ 6,442
Investments	613	619	600	608
Funds held for customers	484	484	455	455
Total cash and cash equivalents, investments, and funds held for customers	$ 6,271	$ 6,277	$ 7,497	$ 7,505

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

	October 31, 2020		July 31, 2020	
(In millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Type of issue:				
Total cash, cash equivalents, restricted cash, and restricted cash equivalents	$ 5,458	$ 5,458	$ 6,697	$ 6,697
Available-for-sale debt securities:				
Municipal bonds	17	17	9	9
Corporate notes	741	747	744	752
U.S. agency securities	55	55	47	47
Total available-for-sale debt securities	813	819	800	808
Total cash, cash equivalents, restricted cash, restricted cash equivalents, and investments	$ 6,271	$ 6,277	$ 7,497	$ 7,505

We use the specific identification method to compute gains and losses on investments. We include realized gains and losses on our available-for-sale debt securities in interest and other income on our condensed consolidated statements of operations. Gross realized gains and losses on our available-for-sale debt securities for the three months ended October 31, 2020 and October 31, 2019 were not significant.

We accumulate unrealized gains and losses on our available-for-sale debt securities, net of tax, in accumulated other comprehensive income or loss in the stockholders' equity section of our condensed consolidated balance sheets, except for certain unrealized losses described below. Gross unrealized gains and losses on our available-for-sale debt securities at October 31, 2020 and July 31, 2020 were not significant.

For available-for sale debt securities in an unrealized loss position, we determine whether a credit loss exists. The estimate of the credit loss is determined by considering available information relevant to the collectibility of the security and information about past events, current conditions, and reasonable and supportable forecasts. The allowance for credit loss is recorded to interest and other income on our condensed consolidated statement of operations, not to exceed the amount of the unrealized loss. Any excess unrealized loss greater than the credit loss at a security level is recognized in accumulated other comprehensive income or loss in the stockholders' equity section of our condensed consolidated balance sheets. We determined there were no credit losses related to available-for-sale securities as of October 31, 2020. Unrealized losses on available-for-sale debt securities at October 31, 2020 were not significant. We do not intend to sell these investments. In addition, it is more likely than not that we will not be required to sell them before recovery of the amortized cost basis, which may be at maturity.

The following table summarizes our available-for-sale debt securities, included in investments and funds held for customers, classified by the stated maturity date of the security at the dates indicated.

(In millions)	October 31, 2020 Amortized Cost	October 31, 2020 Fair Value	July 31, 2020 Amortized Cost	July 31, 2020 Fair Value
Due within one year	$ 371	$ 372	$ 389	$ 390
Due within two years	246	250	256	261
Due within three years	187	188	137	139
Due after three years	9	9	18	18
Total available-for-sale debt securities	$ 813	$ 819	$ 800	$ 808

Long-term investments represent non-marketable equity securities in privately held companies that do not have a readily determinable fair value. These investments are accounted for under the measurement alternative whereby we adjust the carrying value of these investments based on observable price changes from orderly transactions for identical or similar investments of the same issuer. As of October 31, 2020 and July 31, 2020, the carrying value of long-term investments was $28 million and $19 million, respectively, and adjustments to the carrying value of these investments for the three months ended October 31, 2020 were not significant.

The following table summarizes our funds held for customers by investment category at the dates indicated.

(In millions)	October 31, 2020	July 31, 2020
Restricted cash and restricted cash equivalents	$ 284	$ 255
Restricted available-for-sale debt securities	200	200
Total funds held for customers	$ 484	$ 455

(In millions)	October 31, 2019	July 31, 2019
Restricted cash and restricted cash equivalents	$ 213	$ 236
Restricted available-for-sale debt securities	200	200
Total funds held for customers	$ 413	$ 436

4. Business Combinations

Credit Karma

On February 24, 2020, we entered into an agreement and plan of merger (the Merger Agreement) to acquire Credit Karma, Inc., (Credit Karma) for $7.1 billion, subject to certain customary adjustments set forth in the Merger Agreement. We are acquiring Credit Karma to expand our consumer finance platform, accelerate our mission of powering prosperity around the world, and help consumers unlock smart money decisions to help make ends meet.

The purchase price for Credit Karma will be payable in equal portions of cash and Intuit common stock, with the shares being valued at $299.7306 per share (which price was calculated based on the daily volume-weighted average sales price per share for Intuit common stock for the ten trading days ending on February 21, 2020). The per share price of these shares has been fixed as of the Merger Agreement signing date. The aggregate value of these shares will fluctuate based on changes in our share price between the signing date and the closing date.

The total consideration of $7.1 billion includes an estimated $1.0 billion for the fair value of equity awards that will be expensed over service periods of up to three years. Additionally, as part of the merger agreement, following the close of the transaction we have agreed to issue to the employees of Credit Karma approximately $300 million of restricted stock units, which will be charged to expense over a service period of four years. The cash portion of the purchase price is expected to be financed with our existing cash.

The Merger Agreement must be approved by Credit Karma shareholders and is subject to receipt of required regulatory approvals and satisfaction or waiver of other customary closing conditions. The transaction is expected to close before the end of calendar year 2020. Additionally, if the Merger Agreement is terminated as a result of reaching its termination date (10 months from the signing date unless extended by us by up to five additional months) without receiving clearance to close under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 or on the termination date there is in effect an order or injunction or similar restraint preventing consummation of the transaction under applicable U.S. antitrust laws, then under certain circumstances we would be obligated to pay Credit Karma a termination fee of between $230 million and $350 million.

5. Current Liabilities

Short-Term Debt

On May 2, 2019 we entered into an amended and restated credit agreement with certain institutional lenders with an aggregate principal amount of $1.4 billion, including a $400 million unsecured term loan that matures on February 1, 2021 and a $1 billion unsecured revolving credit facility that matures on May 2, 2024.

Under the amended and restated agreement we may, subject to certain customary conditions including lender approval, on one or more occasions increase commitments under the term loan in an amount not to exceed $400 million in the aggregate. The term loan accrues interest at rates that are equal to, at our election, either Bank of America's alternate base rate plus a margin that ranges from 0.0% to 0.125% or the London Interbank Offered Rate (LIBOR) plus a margin that ranges from 0.625% to 1.125%. Actual margins under either election will be based on our senior debt credit ratings. The amended and restated credit agreement includes customary affirmative and negative covenants, including financial covenants that require us to maintain a ratio of total gross debt to annual earnings before interest, taxes, depreciation and amortization (EBITDA) of not greater than 3.25 to 1.00 as of any date and a ratio of annual EBITDA to annual interest expense of not less than 3.00 to 1.00 as of the last day of each fiscal quarter. As of October 31, 2020 we were compliant with all required covenants. The term loan is subject to quarterly principal payments of $12.5 million through October 31, 2020, with the balance payable on February 1, 2021. At October 31, 2020, $325 million was outstanding under the term loan and was classified as short-term debt on our condensed consolidated balance sheet. The carrying value of the term loan approximates its fair value. Interest on the term loan is payable monthly. We paid $1 million for interest on the term loan during the three months ended October 31, 2020 and $3 million during the three months ended October 31, 2019.

Unsecured Revolving Credit Facility

The amended and restated credit agreement we entered into on May 2, 2019 includes a $1 billion unsecured revolving credit facility that will expire on May 2, 2024. Under this agreement we may, subject to certain customary conditions including lender approval, on one or more occasions increase commitments under the unsecured revolving credit facility in an amount not to exceed $250 million in the aggregate and may extend the maturity date up to two times. Advances under the unsecured revolving credit facility accrue interest at rates that are equal to, at our election, either Bank of America's alternate base rate plus a margin that ranges from 0.0% to 0.1% or LIBOR plus a margin that ranges from 0.69% to 1.1%. Actual margins under either election will be based on our senior debt credit ratings. The amended and restated credit agreement includes customary affirmative and negative covenants. See *"Short-Term Debt"* above for more information. We repaid the $1 billion that was outstanding as of July 31, 2020 under this unsecured revolving credit facility during the three months ended October 31, 2020, and at October 31, 2020 no amounts were outstanding. We paid $1 million in interest on the unsecured revolving credit facility during the three months ended October 31, 2020 and no interest during the three months ended October 31, 2019.

Other Current Liabilities

Other current liabilities were as follows at the dates indicated:

(In millions)	October 31, 2020	July 31, 2020
Executive deferred compensation plan liabilities	$ 135	$ 123
Current portion of operating lease liabilities	49	46
Reserve for promotional discounts and rebates	9	11
Reserve for returns and credits	20	24
Current portion of dividend payable	6	6
Interest payable	8	3
Other	53	84
Total other current liabilities	$ 280	$ 297

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

6. Long-Term Obligations and Commitments

Senior Unsecured Notes

In June 2020 we issued four series of senior unsecured notes (together, the Notes) pursuant to a public debt offering. The proceeds from the issuance were $1.98 billion, net of debt discount of $2 million and debt issuance costs of $15 million.

The carrying value of the Notes was as follows at the dates indicated:

(In millions)	October 31, 2020	July 31, 2020	Effective Interest Rate
Senior unsecured notes issued June 2020:			
0.650% notes due July 2023	$ 500	$ 500	0.837%
0.950% notes due July 2025	500	500	1.127%
1.350% notes due July 2027	500	500	1.486%
1.650% notes due July 2030	500	500	1.767%
Total senior unsecured notes	2,000	2,000	
Unamortized discount and debt issuance costs	(16)	(17)	
Net carrying value senior unsecured notes	$ 1,984	$ 1,983	

Interest is payable semiannually on January 15 and July 15 of each year, beginning on January 15, 2021. The discount and debt issuance costs are amortized to interest expense over the term of the Notes under the effective interest method. We paid no interest on the Notes during the three months ended October 31, 2020.

The Notes are senior unsecured obligations of Intuit and rank equally with all existing and future unsecured and unsubordinated indebtedness of Intuit and are redeemable by us at any time, subject to a make-whole premium. Upon the occurrence of change of control transactions that are accompanied by certain downgrades in the credit ratings of the Notes, we will be required to repurchase the Notes at a repurchase price equal to 101% of the aggregate outstanding principal plus any accrued and unpaid interest to but not including the date of repurchase. The indenture governing the Notes requires us to comply with certain covenants. For example, the Notes limit our ability to create certain liens and enter into sale and leaseback transactions. As of October 31, 2020 we were compliant with all covenants governing the Notes.

Secured Revolving Credit Facility

On February 19, 2019, a subsidiary of Intuit entered into a two-year $300 million secured revolving credit facility with a lender. The revolving credit facility is secured by cash and receivables of the subsidiary and is non-recourse to Intuit Inc. Advances under this secured revolving credit facility are used to fund a portion of our loans to qualified small businesses and accrue interest at LIBOR plus 2.39%. Unused portions of the credit facility accrue interest at a rate of 0.50%. On March 2, 2020, we amended the secured revolving credit facility to extend the commitment term from February 19, 2021 to February 19, 2022 and the final maturity date from August 19, 2021 to August 19, 2022. The agreement includes certain affirmative and negative covenants, including financial covenants that require the subsidiary to maintain specified financial ratios. As of October 31, 2020 we were compliant with all required covenants. At October 31, 2020, $48 million was outstanding under this facility, with a weighted-average interest rate of 5.70%, which includes the unused facility fee. The outstanding balance is secured by cash and receivables of the subsidiary totaling $146 million. Interest on the facility is payable monthly. We paid $1 million for interest on the secured revolving credit facility during each of the three months ended October 31, 2020 and October 31, 2019.

Other Long-Term Obligations

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

(In millions)	October 31, 2020	July 31, 2020
Long-term income tax liabilities	$ 23	$ 10
Total dividend payable	11	12
Long-term deferred revenue	9	13
Other	13	19
Total long-term obligations	56	54
Less current portion (included in other current liabilities)	(6)	(10)
Long-term obligations due after one year	$ 50	$ 44

Unconditional Purchase Obligations

We describe our purchase obligations in Note 8 to the financial statements in Part II, Item 8 of our Annual Report on Form 10-K for the fiscal year ended July 31, 2020. There were no significant changes in our purchase obligations during the three months ended October 31, 2020.

7. Leases

We lease office facilities under non-cancellable operating lease arrangements. Our facility leases generally provide for periodic rent increases and may contain escalation clauses and renewal options. Our leases have remaining lease terms of up to 10 years, some of which include one or more options to extend the leases for up to 10 years per option, generally at rates to be determined in accordance with the agreements. Options to extend the lease are included in the lease liability if they are reasonably certain of being exercised. We do not have significant finance leases.

We sublease certain office facilities to third parties. These subleases have remaining lease terms of up to 4 years, some of which include one or more options to extend the subleases for up to 5 years per option.

The components of lease expense were as follows:

	Three Months Ended	
(In millions)	October 31, 2020	October 31, 2019
Operating lease cost [1]	$ 15	$ 18
Variable lease cost	3	3
Sublease income	(4)	(7)
Total net lease cost	$ 14	$ 14

[1] Includes short-term leases, which were not significant for each of the three months ended October 31, 2020 and 2019.

Supplemental cash flow information related to operating leases was as follows:

	Three Months Ended	
	October 31, 2020	October 31, 2019
(In millions)		
Cash paid for amounts included in the measurement of operating lease liabilities	$ 14	$ 16
Right-of-use assets obtained in exchange for new operating lease liabilities [1]	$ 19	$ 322

[1] For the three months ended October 31, 2019, this includes $319 million for operating leases existing on August 1, 2019 and $3 million for operating leases that commenced in the first three months of fiscal 2020.

Other information related to operating leases was as follows at the dates indicated:

	October 31, 2020	July 31, 2020
Weighted-average remaining lease term for operating leases (in years)	5.7	5.5
Weighted-average discount rate for operating leases	2.95 %	3.1 %

Future minimum lease payments under non-cancellable operating leases as of October 31, 2020 were as follows:

(In millions)	Operating Leases [1]
Fiscal year ending July 31,	
2021 (excluding the three months ended October 31, 2020)	$ 41
2022	59
2023	53
2024	52
2025	40
Thereafter	56
Total future minimum lease payments	301
Less imputed interest	(24)
Present value of lease liabilities	$ 277

(1) Non-cancellable sublease proceeds for the remainder of the fiscal year ending July 31, 2021 and the fiscal years ending July 31, 2022, 2023, 2024, and 2025, of $11 million, $11 million, $3 million, $2 million, and $1 million, respectively, are not included in the table above.

Supplemental balance sheet information related to operating leases was as follows at the dates indicated:

(In millions)	October 31, 2020	July 31, 2020
Operating lease right-of-use assets	$ 232	$ 226
Other current liabilities	$ 49	$ 46
Operating lease liabilities	228	221
Total operating lease liabilities	$ 277	$ 267

As of October 31, 2020, we have additional operating leases of $48 million, primarily for office facilities, that have not yet commenced and therefore are not reflected on the condensed consolidated balance sheet nor in the tables above. These operating leases will commence between fiscal year 2021 and fiscal year 2022 with lease terms of 3 to 11 years.

8. Income Taxes

Effective Tax Rate

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

We recognized excess tax benefits on share-based compensation of $52 million and $29 million in our provision for income taxes for the three months ended October 31, 2020, and 2019, respectively.

Our effective tax rate for the three months ended October 31, 2020 was approximately 6%. Excluding discrete tax items primarily related to share-based compensation tax benefits mentioned above, our effective tax rate was 25%. The difference from the federal statutory rate of 21% was primarily due to state income taxes and non-deductible share-based compensation, which were partially offset by the tax benefit we received from the federal research and experimentation credit.

We recorded a $35 million tax benefit on pretax income of $22 million for the three months ended October 31, 2019. Excluding discrete tax items primarily related to share-based compensation tax benefits mentioned above, our effective tax rate was 24%. The difference from the federal statutory rate of 21% was primarily due to state income taxes and non-deductible share-based compensation, which were partially offset by the tax benefit we received from the federal research and experimentation credit.

Unrecognized Tax Benefits and Other Considerations

The total amount of our unrecognized tax benefits at July 31, 2020 was $101 million. Net of related deferred tax assets, unrecognized tax benefits were $61 million at that date. If we were to recognize these net benefits, our income tax expense would reflect a favorable net impact of $61 million. There were no material changes to these amounts during the three months ended October 31, 2020. We do not believe that it is reasonably possible that there will be a significant increase or decrease in our unrecognized tax benefits over the next 12 months.

We have offset a $61 million long-term income tax receivable against our long term liability for uncertain tax positions at October 31, 2020. The long term income tax receivable is primarily related to the government's approval of a method of accounting change request for fiscal 2018.

9. Stockholders' Equity

Stock Repurchase Programs and Treasury Shares

Intuit's Board of Directors has authorized a series of common stock repurchase programs. Shares of common stock repurchased under these programs become treasury shares. In connection with our pending acquisition of Credit Karma, we have temporarily suspended share repurchases. We repurchased no shares under these programs during the three months ended October 31, 2020. At October 31, 2020, we had authorization from our Board of Directors to expend up to an additional $2.4 billion for stock repurchases. Future stock repurchases under the current programs are at the discretion of management, and authorization of future stock repurchase programs is subject to the final determination of our Board of Directors.

Our treasury shares are repurchased at the market price on the trade date; accordingly, all amounts paid to reacquire these shares have been recorded as treasury stock on our condensed consolidated balance sheets. Repurchased shares of our common stock are held as treasury shares until they are reissued or retired. When we reissue treasury stock, if the proceeds from the sale are more than the average price we paid to acquire the shares we record an increase in additional paid-in capital. Conversely, if the proceeds from the sale are less than the average price we paid to acquire the shares, we record a decrease in additional paid-in capital to the extent of increases previously recorded for similar transactions and a decrease in retained earnings for any remaining amount.

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

Dividends on Common Stock

During the three months ended October 31, 2020 we declared quarterly cash dividends that totaled $0.59 per share of outstanding common stock for a total of $157 million. In November 2020 our Board of Directors declared a quarterly cash dividend of $0.59 per share of outstanding common stock payable on January 19, 2021 to stockholders of record at the close of business on January 11, 2021. Future declarations of dividends and the establishment of future record dates and payment dates are subject to the final determination of our Board of Directors.

Share-Based Compensation Expense

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

	Three Months Ended	
(In millions)	October 31, 2020	October 31, 2019
Cost of revenue	$ 15	$ 15
Selling and marketing	32	30
Research and development	38	38
General and administrative	26	28
Total share-based compensation expense	$ 111	$ 111

We capitalized $1 million and $1 million in share-based compensation related to internal use software projects during the three months ended October 31, 2020 and October 31, 2019, respectively.

Share-Based Awards Available for Grant

A summary of share-based awards available for grant under our 2005 Equity Incentive Plan for the three months ended October 31, 2020 was as follows:

(Shares in thousands)	Shares Available for Grant
Balance at July 31, 2020	18,047
Restricted stock units granted [1]	(363)
Options granted	—
Share-based awards canceled/forfeited/expired [1] [2]	1,592
Balance at October 31, 2020	19,276

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

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

Restricted Stock Unit Activity and Related Share-Based Compensation Expense

A summary of restricted stock unit (RSU) activity for the three months ended October 31, 2020 was as follows:

	Restricted Stock Units	
(Shares in thousands)	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at July 31, 2020	5,664	$ 231.97
Granted	158	322.24
Vested	(480)	163.73
Forfeited	(404)	195.55
Nonvested at October 31, 2020	4,938	$ 244.48

At October 31, 2020, there was approximately $1.1 billion of unrecognized compensation cost related to non-vested RSUs with a weighted average vesting period of 3.0 years. We will adjust unrecognized compensation cost for actual forfeitures as they occur.

Stock Option Activity and Related Share-Based Compensation Expense

A summary of stock option activity for the three months ended October 31, 2020 was as follows:

	Options Outstanding	
(Shares in thousands)	Number of Shares	Weighted Average Exercise Price Per Share
Balance at July 31, 2020	2,681	$ 185.83
Granted	—	—
Exercised	(402)	121.96
Canceled or expired	(23)	244.47
Balance at October 31, 2020	2,256	$ 196.64
Exercisable at October 31, 2020	1,452	$ 150.72

At October 31, 2020, there was approximately $52 million of unrecognized compensation cost related to non-vested stock options with a weighted average vesting period of 3.1 years. We will adjust unrecognized compensation cost for actual forfeitures as they occur.

10. Litigation

Beginning in May 2019, various legal proceedings were filed and certain regulatory inquiries were commenced in connection with our provision and marketing of free online tax preparation programs. We believe that the allegations contained within these legal proceedings are without merit. We are vigorously defending our interests in the legal proceedings and cooperating in the inquiries. These proceedings include multiple putative class actions that were consolidated into a single putative class action in the Northern District of California in September 2019 and demands for arbitration that were filed beginning in October 2019. On November 12, 2020, Intuit entered into a settlement agreement to resolve the putative class action for a payment of $40 million, which is subject to court approval. Since the court could approve, reject, or ask the parties to modify the settlement, the ultimate outcome of this matter remains uncertain. In view of the complexity and ongoing nature of these proceedings and inquiries, at this time we are unable to estimate a reasonably possible financial loss or range of financial loss that we may incur to resolve or settle these matters.

As of October 31, 2020, there are approximately 125,000 individual arbitration claims pending and we could incur significant arbitration and legal fees associated with the defense of these claims. We recorded approximately $14 million in arbitration fees related to these claims in fiscal 2020 and approximately $10 million in the three months ended October 31, 2020. The arbitration fees are unrelated to the underlying merits of the claims and are accrued at the earlier of when invoiced or when the services are rendered. We could incur additional arbitration fees of approximately $400 million in future periods. While the settlement of the putative class action, discussed above, could eliminate a significant portion of these fees, we are continuing to dispute the applicability and propriety of these fees.

To date, the legal and other fees we have incurred related to these proceedings and inquiries have not been material. The ongoing defense and any resolution or settlement of these proceedings and inquiries could involve significant costs to us.

Intuit is subject to certain routine legal proceedings, including class action lawsuits, as well as demands, claims, government inquiries and threatened litigation, that arise in the normal course of our business, including assertions that we may be infringing patents or other intellectual property rights of others. Our failure to obtain necessary license or other rights, or litigation arising out of intellectual property claims could adversely affect our business. We currently believe that, in addition to any amounts accrued, the amount of potential losses, if any, for any pending claims of any type (either alone or combined) will not have a material impact on our condensed consolidated financial statements. The ultimate outcome of any legal proceeding is uncertain and, regardless of outcome, legal proceedings can have an adverse impact on Intuit because of defense costs, negative publicity, diversion of management resources and other factors.

11. Segment Information

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

In August 2020, we reorganized certain technology and customer success functions that support and benefit our overall platform. Additionally, certain legal, facility and employee service costs are now managed at the corporate level. As a result, these costs are no longer included in segment operating income and are now included in other common expenses. For the three months ended October 31, 2019, we reclassified $43 million from Small Business & Self-Employed, $25 million from Consumer, and $3 million from ProConnect to other common expenses. In August 2020, we also renamed our Strategic Partner segment as the ProConnect segment. This segment continues to serve professional accountants.

***Small Business & Self-Employed*:** This segment serves small businesses and the self-employed around the world, and the accounting professionals who assist and advise them. Our offerings include QuickBooks financial and business management online services and desktop software, payroll solutions, merchant payment processing solutions, and financing for small businesses.

***Consumer*:** This segment serves consumers and includes do-it-yourself and assisted TurboTax income tax preparation products and services sold in the U.S. and Canada. Our Mint and Turbo offerings serve consumers and help them understand and improve their financial lives by offering a view of their financial health.

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

All of our segments operate primarily in the United States and sell primarily to customers in the United States. International total net revenue was approximately 6% of consolidated total net revenue for all periods presented.

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

The accounting policies of our reportable segments are the same as those described in the summary of significant accounting policies in Note 1 to the financial statements in Part II, Item 8 of our Annual Report on Form 10-K for the fiscal year ended July 31, 2020 and in Note 1, *"Description of Business and Summary of Significant Accounting Policies – Significant Accounting Policies"* in this Quarterly Report on Form 10-Q. Except for goodwill and purchased intangible assets, we do not generally track assets by reportable segment and, consequently, we do not disclose total assets by reportable segment.

The following table shows our financial results by reportable segment for the periods indicated. Segment results for fiscal 2020 have been reclassified to conform to the fiscal 2021 segment presentation, as described earlier in this footnote.

(In millions)	Three Months Ended October 31, 2020	Three Months Ended October 31, 2019
Net revenue:		
Small Business & Self-Employed	$ 1,181	$ 1,046
Consumer	119	100
ProConnect	23	19
Total net revenue	$ 1,323	$ 1,165
Operating income (loss):		
Small Business & Self-Employed	$ 767	$ 593
Consumer	4	(20)
ProConnect	(10)	(18)
Total segment operating income	761	555
Unallocated corporate items:		
Share-based compensation expense	(111)	(111)
Other common expenses	(432)	(426)
Amortization of acquired technology	(7)	(6)
Amortization of other acquired intangible assets	(2)	(2)
Total unallocated corporate items	(552)	(545)
Total operating income	$ 209	$ 10

Revenue classified by significant product and service offerings was as follows:

(In millions)	Three Months Ended October 31, 2020	Three Months Ended October 31, 2019
Net revenue:		
QuickBooks Online Accounting	$ 392	$ 306
Online Services	229	195
Total Online Ecosystem	621	501
QuickBooks Desktop Accounting	241	239
Desktop Services and Supplies	319	306
Total Desktop Ecosystem	560	545
Small Business & Self-Employed	1,181	1,046
Consumer	119	100
ProConnect	23	19
Total net revenue	$ 1,323	$ 1,165

Revenue from our QuickBooks Desktop packaged software products was $20 million for the three months ended October 31, 2020, and $27 million for the three months ended October 31, 2019. These amounts are included in the QuickBooks Desktop Accounting revenue presented in the table above.

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

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

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

You should note that this MD&A contains forward-looking statements that involve risks and uncertainties. Please see the section entitled "Forward-Looking Statements" immediately preceding Part I for important information to consider when evaluating such statements.

You should read this MD&A in conjunction with the financial statements and related notes in Part I, Item 1 of this Quarterly Report and our Annual Report on Form 10-K for the fiscal year ended July 31, 2020.

In August 2020, we reorganized certain technology and customer success functions that support and benefit our overall platform. Additionally, certain legal, facility and employee service costs are now managed at the corporate level. As a result, these costs are no longer included in segment operating income and are now included in other common expenses. For the three months ended October 31, 2019, we reclassified $43 million from Small Business & Self-Employed, $25 million from Consumer, and $3 million from ProConnect to other common expenses. In August 2020, we also renamed our Strategic Partner segment as the ProConnect segment. This segment continues to serve professional accountants. Segment results for fiscal 2020 have been reclassified to conform to the fiscal 2021 segment presentation.

In March 2020 the World Health Organization declared the COVID-19 outbreak as a pandemic. The COVID-19 pandemic has had significant adverse impacts on the U.S. and global economies. We are conducting business with substantial modifications to employee work locations and employee travel, among other modifications. While we have not experienced significant disruptions to our operations thus far from the COVID-19 pandemic, we are unable to predict the full impact that the COVID-19 pandemic will have on our operations and future financial performance, including demand for our offerings, impact to our customers and partners, actions that may be taken by governmental authorities, and other factors identified in "Risk Factors" in Item 1A of Part II of this Quarterly Report.

EXECUTIVE OVERVIEW

This overview provides a high-level discussion of our operating results and some of the trends that affect our business. We believe that an understanding of these trends is important in order to understand our financial results as well as our future prospects. This summary is not intended to be exhaustive, nor is it a substitute for the detailed discussion and analysis provided elsewhere in this Quarterly Report on Form 10-Q.

About Intuit

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

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***Small Business & Self-Employed*:** This segment serves small businesses and the self-employed around the world, and the accounting professionals who assist and advise them. Our offerings include QuickBooks financial and business management online services and desktop software, payroll solutions, merchant payment processing solutions, and financing for small businesses.

***Consumer*:** This segment serves consumers and includes do-it-yourself and assisted TurboTax income tax preparation products and services sold in the U.S. and Canada. Our Mint and Turbo offerings serve consumers and help them understand and improve their financial lives by offering a view of their financial health.

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

Our Growth Strategy

At Intuit, our strategy starts with customer obsession. We listen to and observe our customers, understand their challenges, and then use advanced technology, including artificial intelligence (AI), to develop innovative solutions designed to solve their problems and help them grow and prosper. For more than three decades, our values have inspired us to innovate and reimagine ways to save people time and money, eliminate drudgery and inspire confidence. We have reinvented and disrupted ourselves to better serve our customers, along the way.

Our strategy for delivering on our bold goals is to become an AI-driven expert platform where we and others can solve our customers' most important problems. We plan to accelerate the development of the platform by applying AI in the three key areas:

- Machine Learning - Building algorithms which progressively learn from data to automate tasks for our customers.
- Knowledge Engineering - Turning rules, such as IRS regulations, and relationships about data into code to eliminate work and provide tailored experiences.
- Natural Language Processing - Processing, analyzing and understanding human language to create interactions with customers and automate repetitive tasks.

As we build our AI-driven expert platform, we are prioritizing our resources on five strategic priorities across the company. These priorities focus on solving the problems that matter most to customers and include:

- **Revolutionizing speed to benefit:** When customers use our products and services, we aim to deliver value instantly by making the interactions with our offerings frictionless, without the need for customers to manually enter data. We are accelerating the application of AI with a goal to revolutionize the customer experience. This priority is foundational across our business, and execution against it positions us to succeed with our other four strategic priorities.
- **Connecting people to experts:** The largest problem our customers face is lack of confidence to file their own taxes or to manage their books. To build their confidence, we are connecting our customers to experts. We offer customers access to experts to help them make important decisions – and experts, such as accountants, gain access to new customers so they can grow their businesses.

- **Unlocking smart money decisions:** Crippling high-cost debt and lack of savings are at unprecedented levels across the U.S. With the insights generated through our ecosystem, we strive to offer the right financial opportunities based on a customer's unique situation. We expect that our proposed acquisition of Credit Karma will help us tackle these problems.
- **Be the center of small business growth:** We are focused on helping customers grow their businesses by offering a broad, seamless set of tools that are designed to help them get paid faster, manage and get access to capital, pay employees with confidence, and use third-party apps to help run their businesses. At the same time, we want to position ourselves to better serve product-based businesses to benefit customers who sell products through multiple channels.
- **Disrupt the small business mid-market:** We aim to disrupt the mid-market with QuickBooks Online Advanced, our online offering designed to address the needs of small business customers with 10 to 100 employees. This offering enables us to increase retention of these larger customers, and attract new mid-market customers who are over-served by available offerings.

As the external environment evolves, we continue to innovate and adapt our strategy and anticipate our customers' needs. For more than 35 years, we have been dedicated to developing innovative financial and compliance products and services that are easy to use and are available where and when customers need them. As a result, our customers actively recommend our products and solutions to others, which is one important way that we measure the success of our strategy.

Industry Trends and Seasonality

Industry Trends

AI is transforming multiple industries, including financial technology. Disruptive start-ups, emerging ecosystems and mega-platforms are harnessing new technology to create personalized experiences, deliver data-driven insights and increase speed of service. These shifts are creating a more dynamic and highly competitive environment where customer expectations are shifting around the world as more services become digitized and the array of choices continues to increase.

Seasonality

Our Consumer and ProConnect offerings have a significant and distinct seasonal pattern as sales and revenue from our income tax preparation products and services are heavily concentrated in the period from November through April. This seasonal pattern results in higher net revenues during our second and third quarters ending January 31 and April 30, respectively. During fiscal 2020, as a relief measure in response to the COVID-19 pandemic, the Internal Revenue Service extended the filing deadline for the 2019 tax year from April 15, 2020 to July 15, 2020. Additionally, all states with a personal income tax also extended their due dates, predominantly to July. As a result, there was a shift in sales and revenue from our third fiscal quarter to our fourth fiscal quarter during fiscal 2020. We expect the seasonality of our Consumer and ProConnect businesses to continue to have a significant impact on our quarterly financial results in the future.

Key Challenges and Risks

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

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

For our consumer and professional tax offerings, we have implemented additional security measures and are continuing to work with state and federal governments to implement industry-wide security and anti-fraud measures, including sharing information regarding suspicious filings. We continue to invest in security measures and to work with the broader industry and government to protect our customers against this type of fraud.

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

Overview of Financial Results

The most important financial indicators that we use to assess our business are revenue growth for the company as a whole and for each reportable segment; operating income growth for the company as a whole; earnings per share; and cash flow from operations. We also track certain non-financial drivers of revenue growth and, when material, identify them in the applicable discussions of segment results below. Service offerings are a significant part of our business. Our total service and other revenue was $6.0 billion or 79% of our total revenue in fiscal 2020 and we expect our total service and other revenue to continue to grow in the future.

Key highlights for the first three months of fiscal 2021 include the following:

Revenue of	Small Business & Self-Employed revenue of	Cash, cash equivalents, and investments of
$1.3 B	**$1.2 B**	**$5.8 B**
up 14% from the same period of fiscal 2020	up 13% from the same period of fiscal 2020	

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing our financial statements, we make estimates, assumptions and judgments that can have a significant impact on our net revenue, operating income or loss, and net income or loss, as well as on the value of certain assets and liabilities on our condensed consolidated balance sheets. We believe that the estimates, assumptions and judgments involved in the accounting policies described in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended July 31, 2020 have the greatest potential impact on our financial statements, so we consider them to be our critical accounting policies and estimates. We believe that there were no significant changes in those critical accounting policies and estimates during the first three months of fiscal 2021. Senior management has reviewed the development and selection of our critical accounting policies and estimates and their disclosure in this Quarterly Report on Form 10-Q with the Audit and Risk Committee of our Board of Directors.

RESULTS OF OPERATIONS

Financial Overview

(Dollars in millions, except per share amounts)	Q1 FY21	Q1 FY20	$ Change	% Change
Total net revenue	$ 1,323	$ 1,165	$ 158	14 %
Operating income	209	10	199	1,990 %
Net income	198	57	141	247 %
Diluted net income per share	$ 0.75	$ 0.22	$ 0.53	241 %

Total net revenue for the first quarter of fiscal 2021 increased $158 million or 14% compared with the same quarter of fiscal 2020. Our Small Business & Self-Employed segment revenue increased during the quarter primarily due to growth in our Online Ecosystem revenue. Revenue in our Consumer and ProConnect segments was seasonally light, consistent with the same quarter of fiscal 2020. See *"Segment Results"* later in this Item 2 for more information about the results for all of our reportable segments.

Operating income for the first quarter of fiscal 2021 increased $199 million compared with the same quarter of fiscal 2020. The increase was due to the increase in revenue described above and a decrease in cost of revenue and operating expenses. See *"Cost of Revenue"* and *"Operating Expenses"* later in this Item 2 for more information.

Net income for the first quarter of fiscal 2021 increased $141 million due to the increase in operating income described above, net of associated tax expense for the period. Diluted net income per share increased to $0.75 for the first quarter of fiscal 2021, in line with the increase in net income.

Segment Results

The information below is organized in accordance with our three reportable segments. See *"Executive Overview – About Intuit"* earlier in this Item 2 and Note 11 to the financial statements in Part I, Item 1 of this Quarterly Report for more information. All of our segments operate and sell to customers primarily in the United States. International total net revenue was approximately 6% of consolidated total net revenue for all periods presented.

In August 2020, we reorganized certain technology and customer success functions that support and benefit our overall platform. Additionally, certain legal, facility and employee service costs are now managed at the corporate level. As a result, these costs are no longer included in segment operating income and are now included in other common expenses. For the three months ended October 31, 2019, we reclassified $43 million from Small Business & Self-Employed, $25 million from Consumer, and $3 million from ProConnect to other common expenses. In August 2020, we also renamed our Strategic Partner segment as the ProConnect segment. This segment continues to serve professional accountants.

Segment operating income or loss is segment net revenue less segment cost of revenue and operating expenses. See *"Executive Overview – Industry Trends and Seasonality"* earlier in this Item 2 for a description of the seasonality of our business. Segment expenses do not include certain costs, such as corporate selling and marketing, product development, general and administrative expenses, share-based compensation expenses, and certain technology and customer success costs, which are not allocated to specific segments. These unallocated costs totaled $543 million in the first three months of fiscal 2021 and $537 million in the first three months of fiscal 2020. Unallocated costs increased in the fiscal 2021 period due to increased corporate product development, selling and marketing, and general and administrative expenses in support of the growth of our businesses and higher share-based compensation expenses. Segment expenses also do not include amortization of acquired technology and amortization of other acquired intangible assets which totaled $9 million in the first three months of fiscal 2021 and $8 million in the first three months of fiscal 2020. See Note 11 to the financial statements in Part I, Item 1 of this Quarterly Report for reconciliations of total segment operating income or loss to consolidated operating income or loss for each fiscal period presented.

Small Business & Self-Employed

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Small Business & Self-Employed segment includes both Online Ecosystem and Desktop Ecosystem revenue.

Our Online Ecosystem includes revenue from QuickBooks Online, QuickBooks Live, QuickBooks Online Advanced and QuickBooks Self-Employed financial and business management offerings; small business payroll services, including QuickBooks Online Payroll, Intuit Online Payroll, Intuit Full Service Payroll; merchant payment processing services for small businesses who use online offerings; and financing for small businesses.

Our Desktop Ecosystem includes revenue from our QuickBooks Desktop packaged software products (Desktop Pro, Desktop for Mac, Desktop Premier, and QuickBooks Point of Sale); QuickBooks Desktop software subscriptions (QuickBooks Desktop Pro Plus, QuickBooks Desktop Premier Plus, and QuickBooks Enterprise, and ProAdvisor Program memberships for the accounting professionals who serve small businesses); desktop payroll products (QuickBooks Basic Payroll, QuickBooks Assisted Payroll and QuickBooks Enhanced Payroll); merchant payment processing services for small businesses who use desktop offerings; financial supplies; and financing for small businesses.

Segment product revenue is derived from revenue related to software license and version protection for our QuickBooks Desktop products and subscriptions, license and related updates for our desktop payroll products and financial supplies, which are all part of our Desktop Ecosystem. Segment service and other revenue is derived from our Online Ecosystem revenue; and Desktop Ecosystem revenue related to support and connected services for our QuickBooks Desktop and desktop payroll products and subscriptions and merchant payment processing services.

(Dollars in millions)	Q1 FY21	Q1 FY20	% Change
Product revenue	$ 348	$ 336	4 %
Service and other revenue	833	710	17 %
Total segment revenue	$ 1,181	$ 1,046	13 %
% of total revenue	89 %	90 %	
Segment operating income	$ 767	$ 593	29 %
% of related revenue	65 %	57 %	

Revenue classified by significant product and service offerings was as follows:

(Dollars in millions)	Q1 FY21	Q1 FY20	% Change
Net revenue:			
QuickBooks Online Accounting	$ 392	$ 306	28 %
Online Services	229	195	17 %
Total Online Ecosystem	621	501	24 %
QuickBooks Desktop Accounting	241	239	1 %
Desktop Services and Supplies	319	306	4 %
Total Desktop Ecosystem	560	545	3 %
Total Small Business & Self-Employed	$ 1,181	$ 1,046	13 %

Revenue for our Small Business & Self-Employed segment increased $135 million or 13% in the first quarter of fiscal 2021 compared with the same period of fiscal 2020 primarily due to growth in Online Ecosystem revenue.

Online Ecosystem

Online Ecosystem revenue increased $120 million or 24% in the first quarter of fiscal 2021 compared with the same period of fiscal 2020. QuickBooks Online Accounting revenue increased 28% in the first quarter of fiscal 2021 primarily due to an increase in customers as well as a shift in mix to our higher priced offerings. Online Services revenue increased 17% in the first quarter of fiscal 2021 primarily due to an increase in revenue from our payments and payroll offerings. Online payments revenue increased due to an increase in customers and an increase in charge volume per customer. Online payroll revenue increased due to a shift in mix to our full service offering and an increase in customers.

Desktop Ecosystem

Desktop Ecosystem revenue increased $15 million or 3% in the first quarter of fiscal 2021 compared with the same period of fiscal 2020 due to growth in customers for our QuickBooks Desktop Enterprise subscription offering, which was partially offset by a decrease in Desktop unit sales. Additionally, during the first quarter of fiscal 2021 there was an increase in revenue from our Pro Advisor offerings as a result of delivering an updated point-of-sale license and higher revenue from version protection as a result of price increases in the prior year.

Small Business & Self-Employed segment operating income increased $174 million or 29% in the first quarter of fiscal 2021 compared with the same period of fiscal 2020 primarily due to the increase in revenue described above and lower expenses for marketing.

In August 2020, we reorganized certain technology and customer success functions that support and benefit our overall platform. Additionally, certain legal, facility and employee service costs are now managed at the corporate level. As a result, these costs are no longer included in segment operating income and are now included in other common expenses. For the three months ended October 31, 2019, we reclassified $43 million from Small Business & Self-Employed to other common expenses.

Consumer

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Consumer segment product revenue is derived primarily from TurboTax desktop tax return preparation software and related form updates.

Consumer segment service and other revenue is derived primarily from TurboTax Online and TurboTax Live offerings, electronic tax filing services and connected services, and also from our Mint and Turbo offerings.

(Dollars in millions)	Q1 FY21	Q1 FY20	% Change
Product revenue	$ 7	$ 6	17 %
Service and other revenue	112	94	19 %
Total segment revenue	$ 119	$ 100	19 %
% of total revenue	9 %	8 %	
Segment operating income (loss)	$ 4	$ (20)	(120)%
% of related revenue	3 %	(20)%	

Revenue for our Consumer segment increased $19 million or 19% in the first quarter of fiscal 2021 compared with the same period of fiscal 2020. Due to the seasonal nature of our Consumer offerings, we typically generate nominal revenue from Consumer products and services in our first fiscal quarter compared with our second and third fiscal quarters. The majority of revenue for the first quarter of each fiscal year is for the filing of extended returns for the previous tax year.

In our first fiscal quarter, our Consumer segment typically generates operating losses because revenue is nominal while we continue to incur operating expenses for general and administrative functions and research and development. In the first quarter of fiscal 2021 expenses were slightly lower compared to the same period of fiscal 2020.

In August 2020, we reorganized certain technology and customer success functions that support and benefit our overall platform. Additionally, certain legal, facility and employee service costs are now managed at the corporate level. As a result, these costs are no longer included in segment operating income and are now included in other common expenses. For the three months ended October 31, 2019, we reclassified $25 million from Consumer to other common expenses.

Because of the seasonality of our Consumer revenue, we do not believe that the revenue or operating results for the first quarter of fiscal 2021 is indicative of trends for the current fiscal year. We will not have substantially complete results for the 2020 tax season until the third quarter of fiscal 2021.

ProConnect

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

ProConnect segment service and other revenue is derived primarily from ProConnect Tax Online tax products, electronic tax filing service, connected services and, bank products.

(Dollars in millions)	Q1 FY21	Q1 FY20	% Change
Product revenue	$ 12	$ 11	9 %
Service and other revenue	11	8	38 %
Total segment revenue	$ 23	$ 19	21 %
% of total revenue	2 %	2 %	
Segment operating loss	$ (10)	$ (18)	(43)%
% of related revenue	(43)%	(92)%	

In August 2020, we renamed our Strategic Partner segment as the ProConnect segment. This segment continues to serve professional accountants.

Revenue for our ProConnect segment revenue increased $4 million or 21% the first quarter of fiscal 2021 compared with the same period of fiscal 2020. Due to the seasonal nature of our ProConnect offerings, we typically generate nominal revenue from professional tax products and services in our first fiscal quarter compared with our second and third fiscal quarters. The majority of revenue for the first quarter of each fiscal year is for the filing of extended returns for the previous tax year.

In our first fiscal quarter, our ProConnect segment typically generates operating losses because revenue is nominal while we continue to incur operating expenses for general and administrative functions and research and development. In the first quarter of fiscal 2021 expenses were slightly lower compared to the same period of fiscal 2020.

In August 2020, we reorganized certain technology and customer success functions that support and benefit our overall platform. Additionally, certain legal, facility and employee service costs are now managed at the corporate level. As a result, these costs are no longer included in segment operating income and are now included in other common expenses. For the three months ended October 31, 2019, we reclassified $3 million from ProConnect to other common expenses.

Because of the seasonality of our ProConnect revenue, we do not believe that the revenue or operating results for the first quarter of fiscal 2021 is indicative of trends for the current fiscal year. We will not have substantially complete results for the 2020 tax season until the third quarter of fiscal 2021.

Cost of Revenue

(Dollars in millions)	Q1 FY21	% of Related Revenue	Q1 FY20	% of Related Revenue
Cost of product revenue	$ 15	4 %	$ 17	5 %
Cost of service and other revenue	234	24 %	267	33 %
Amortization of acquired technology	7	n/a	6	n/a
Total cost of revenue	$ 256	19 %	$ 290	25 %

Our cost of revenue has three components: (1) cost of product revenue, which includes the direct costs of manufacturing and shipping or electronically downloading our desktop software products; (2) cost of service and other revenue, which includes the direct costs associated with our online and service offerings, such as costs for data processing and storage capabilities from cloud providers, customer support costs, costs for the tax and bookkeeping experts that support our TurboTax Live and QuickBooks Live offerings, as well as depreciation expense for developed technology; and (3) amortization of acquired technology which represents the cost of amortizing developed technologies that we have obtained through acquisitions over their useful lives.

Cost of product revenue as a percentage of product revenue was relatively consistent in the first quarter of fiscal 2021 compared with the same period of fiscal 2020. We expense costs of product revenue as they are incurred for delivered software and we do not defer any of these costs when product revenue is deferred.

Cost of service and other revenue as a percentage of service and other revenue decreased in the first quarter of fiscal 2021 compared to the same period of fiscal 2020 primarily due to a decrease in customer success costs as a result of fewer customer contacts and a decrease in depreciation expense.

Operating Expenses

(Dollars in millions)	Q1 FY21	% of Total Net Revenue	Q1 FY20	% of Total Net Revenue
Selling and marketing	$ 362	27 %	$ 383	32 %
Research and development	325	25 %	334	29 %
General and administrative	169	13 %	146	13 %
Amortization of other acquired intangible assets	2	— %	2	— %
Total operating expenses	$ 858	65 %	$ 865	74 %

Total operating expenses as a percentage of total net revenue decreased in the first quarter of fiscal 2021 compared to the same period of fiscal 2020. Total net revenue for the first quarter of fiscal 2021 increased $158 million or 14% while total operating expenses for the quarter decreased $7 million or 1%. Marketing expenses decreased due to shifting some marketing activities to later in the year. Staff and facility expenses decreased as a result of lower headcount and our continued efforts to control discretionary spending with the COVID-19 pandemic. These decreases were partially offset by higher corporate related expenses and professional fees primarily related to the pending acquisition of Credit Karma.

Non-Operating Income and Expenses

Interest Expense

Interest expense of $8 million for the first three months of fiscal 2021 consisted primarily of interest on our senior unsecured notes, unsecured term loan, unsecured revolving credit facility, and secured revolving credit facility. Interest expense of $2 million for the first three months of fiscal 2020 consisted primarily of interest on our unsecured term loan and secured revolving credit facility.

Interest and Other Income, Net

(In millions)	Q1 FY21	Q1 FY20
Interest income [(1)]	$ 3	$ 12
Net gain (loss) on executive deferred compensation plan assets [(2)]	(1)	3
Other	7	(1)
Total interest and other income, net	$ 9	$ 14

(1) Interest income in the first quarter of fiscal 2021 decreased compared to the same period of fiscal 2020 primarily due to lower average interest rates.

(2) In accordance with authoritative guidance, we record gains and losses associated with executive deferred compensation plan assets in interest and other income and gains and losses associated with the related liabilities in operating expenses. The total amounts recorded in operating expenses for each period are approximately equal to the total amounts recorded in interest and other income in those periods.

Income Taxes

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

We recognized excess tax benefits on share-based compensation of $52 million and $29 million in our provision for income taxes for the three months ended October 31, 2020, and 2019, respectively.

Our effective tax rate for the three months ended October 31, 2020 was approximately 6%. Excluding discrete tax items primarily related to share-based compensation tax benefits mentioned above, our effective tax rate was 25%. The difference from the federal statutory rate of 21% was primarily due to state income taxes and non-deductible share-based compensation, which were partially offset by the tax benefit we received from the federal research and experimentation credit.

We recorded a $35 million tax benefit on pretax income of $22 million for the three months ended October 31, 2019. Excluding discrete tax items primarily related to share-based compensation tax benefits mentioned above, our effective tax rate was 24%. The difference from the federal statutory rate of 21% was primarily due to state income taxes and non-deductible share-based compensation, which were partially offset by the tax benefit we received from the federal research and experimentation credit.

LIQUIDITY AND CAPITAL RESOURCES

Overview

At October 31, 2020, our cash, cash equivalents and investments totaled $5.8 billion, a decrease of $1.3 billion from July 31, 2020 due to the factors discussed under *"Statements of Cash Flows"* below. Our primary sources of liquidity have been cash from operations, which entails the collection of accounts receivable for products and services, the issuance of senior unsecured notes, and borrowings under our credit facility. Our primary uses of cash have been for research and development programs, selling and marketing activities, capital projects, acquisitions of businesses, debt service costs and debt repayment, repurchases of our common stock under our stock repurchase programs, and the payment of cash dividends. As discussed in *"Executive Overview – Industry Trends and Seasonality"* earlier in this Item 2, our business is subject to significant seasonality. The balance of our cash, cash equivalents, and investments generally fluctuates with that seasonal pattern. We believe the seasonality of our business is likely to continue in the future.

The following table summarizes selected measures of our liquidity and capital resources at the dates indicated:

(Dollars in millions)	October 31, 2020	July 31, 2020	$ Change	% Change
Cash, cash equivalents, and investments	$ 5,793	$ 7,050	$ (1,257)	(18)%
Long-term investments	28	19	9	47 %
Short-term debt	325	1,338	(1,013)	(76)%
Long-term debt	2,032	2,031	1	— %
Working capital	4,499	4,451	48	1 %
Ratio of current assets to current liabilities	3.1	2.3		

We have historically generated significant cash from operations and we expect to continue to do so in the future. Our cash, cash equivalents, and investments totaled $5.8 billion at October 31, 2020. None of those funds were restricted and approximately 96% of those funds were located in the U.S.

On February 24, 2020, we entered into an agreement and plan of merger (the Merger Agreement) to acquire Credit Karma, Inc. (Credit Karma), for $7.1 billion, subject to certain customary adjustments set forth in the Merger Agreement. The purchase price for Credit Karma will be payable in equal portions of cash and Intuit common stock. The transaction is expected to close before the end of calendar year 2020. See Note 4 to the financial statements in Part I, Item 1 of this Quarterly Report for more information.

In the fourth quarter of fiscal 2020, we borrowed the full $1 billion under our unsecured revolving credit facility and issued $2 billion in senior unsecured notes for general corporate purposes, which may include funding a portion of the pending acquisition of Credit Karma, and other possible acquisitions of businesses or assets or strategic investments. In August 2020, we repaid the $1 billion outstanding under the revolving credit facility. The unsecured revolving credit facility is available to us for general corporate purposes.

Based on past performance and current expectations, we believe that our cash and cash equivalents, investments, and cash generated from operations will be sufficient to meet anticipated seasonal working capital needs, capital expenditure requirements, contractual obligations (including the pending acquisition of Credit Karma), commitments, debt service requirements, and other liquidity requirements associated with our operations for at least the next 12 months. We believe that our financial resources will allow us to manage the impact of COVID-19 on our business operations for the foreseeable future, which could include potential reductions in revenue and delays in payments from customers and partners.

We expect to return excess cash generated by operations to our stockholders through payment of cash dividends, after taking into account our operating and strategic cash needs. In connection with our pending acquisition of Credit Karma, we have temporarily suspended share repurchases.

Our secured revolving credit facility is available to fund a portion of our loans to qualified small businesses. At October 31, 2020, $48 million was outstanding under the secured revolving credit facility.

We evaluate, on an ongoing basis, the merits of acquiring technology or businesses, or establishing strategic relationships with and investing in other companies. Our strong liquidity profile enables us to quickly respond to these types of opportunities.

Statements of Cash Flows

The following table summarizes selected items from our condensed consolidated statements of cash flows for the first three months of fiscal 2021 and fiscal 2020. See the financial statements in Part I, Item 1 of this Quarterly Report for complete condensed consolidated statements of cash flows for those periods.

	Three Months Ended		
(Dollars in millions)	October 31, 2020	October 31, 2019	$ Change
Net cash provided by (used in):			
Operating activities	$ 45	$ (127)	$ 172
Investing activities	(130)	(57)	(73)
Financing activities	(1,153)	(325)	(828)
Effect of exchange rates on cash, cash equivalents, restricted cash, and restricted cash equivalents	(1)	—	(1)
Net decrease in cash, cash equivalents, restricted cash, and restricted cash equivalents	$ (1,239)	$ (509)	$ (730)

Our primary sources and uses of cash were as follows:

Three Months Ended	
October 31, 2020	**October 31, 2019**
Sources of cash: • Net sales of loans held for sale • Issuance of common stock under employee stock plans	*Sources of cash:* • Issuance of common stock under employee stock plans
Uses of cash: • Repayment of debt • Payment of accrued bonuses for fiscal 2020 • Payment of cash dividends and dividend rights • Acquisition of a business • Capital expenditures • Net originations of term loans to small businesses	*Uses of cash:* • Operations • Payment of accrued bonuses for fiscal 2019 • Repurchases of shares of our common stock • Payment of cash dividends and dividend rights • Capital expenditures • Repayment of debt • Net originations of term loans to small businesses

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

As described in Note 9 to the financial statements in Part I, Item 1 of this Quarterly Report, our Board of Directors has authorized a series of common stock repurchase programs. In connection with our pending acquisition of Credit Karma, we have temporarily suspended share repurchases. During the first three months of fiscal 2021 we repurchased no shares under these programs. At October 31, 2020, we had authorization from our Board of Directors to expend up to an additional $2.4 billion for stock repurchases. Future stock repurchases under the current program are at the discretion of management, and authorization of future stock repurchase programs is subject to the final determination of our Board of Directors.

We have continued to pay quarterly cash dividends on shares of our outstanding common stock. During the three months ended October 31, 2020 we declared quarterly cash dividends that totaled $0.59 per share of outstanding common stock for a total of $157 million. In November 2020 our Board of Directors declared a quarterly cash dividend of $0.59 per share of outstanding common stock payable on January 19, 2021 to stockholders of record at the close of business on January 11, 2021. We currently expect to continue paying comparable cash dividends on a quarterly basis. However, future declarations of dividends and the establishment of future record dates and payment dates are subject to the final determination of our Board of Directors.

Business Combinations

On February 24, 2020, we entered into an agreement and plan of merger (the Merger Agreement) to acquire Credit Karma, Inc. (Credit Karma), for $7.1 billion, subject to certain customary adjustments set forth in the Merger Agreement. The purchase price for Credit Karma will be payable in equal portions of cash and Intuit common stock. The transaction is expected to close before the end of calendar year 2020 subject to receiving required regulatory approval. See Note 4 to the financial statements in Part I, Item 1 of this Quarterly Report for more information.

Commitments for Senior Unsecured Notes

In June 2020, we issued $2 billion of senior unsecured notes comprised of the following:

- $500 million of 0.650% notes due July 2023;
- $500 million of 0.950% notes due July 2025;
- $500 million of 1.350% notes due July 2027; and
- $500 million of 1.650% notes due July 2030 (together, the Notes).

Interest is payable semiannually on January 15 and July 15 of each year, beginning on January 15, 2021. At October 31, 2020, our maximum commitment for interest payments under the Notes was $164 million through the maturity dates.

The Notes are senior unsecured obligations of Intuit and rank equally with all existing and future unsecured and unsubordinated indebtedness of Intuit and are redeemable by us at any time, subject to a make-whole premium. Upon the occurrence of change of control transactions that are accompanied by certain downgrades in the credit ratings of the Notes, we will be required to repurchase the Notes at a repurchase price equal to 101% of the aggregate outstanding principal plus any accrued and unpaid interest to but not including the date of repurchase. The indenture governing the Notes requires us to comply with certain covenants. For example, the Notes limit our ability to create certain liens and enter into sale and leaseback transactions. As of October 31, 2020 we were compliant with all covenants governing the Notes. See Note 6 to the financial statements in Part I, Item 1 of this Quarterly Report for more information.

Credit Facilities

Unsecured Revolving Credit Facility and Term Loan

On May 2, 2019 we entered into an amended and restated credit agreement with certain institutional lenders for a credit facility with an aggregate principal amount of $1.4 billion, including a $400 million unsecured term loan that matures on February 1, 2021 and a $1 billion unsecured revolving credit facility that matures on May 2, 2024.

Under the amended and restated credit agreement we may, subject to certain customary conditions including lender approval, on one or more occasions increase commitments under the unsecured revolving credit facility in an amount not to exceed $250 million in the aggregate and may extend the maturity date up to two times. Advances under the unsecured revolving credit facility accrue interest at rates that are equal to, at our election, either Bank of America's alternate base rate plus a margin that ranges from 0.0% to 0.1% or the London Interbank Offered Rate (LIBOR) plus a margin that ranges from 0.69% to 1.1%. Actual margins under either election will be based on our senior debt credit ratings. At October 31, 2020, no amounts were outstanding under the unsecured revolving credit facility. We monitor counterparty risk associated with the institutional lenders that are providing the credit facility. We currently believe that the credit facility will be available to us should we choose to borrow under it.

On May 2, 2019 $400 million was outstanding on the term loan under the amended and restated credit agreement. Under this agreement we may, subject to certain customary conditions including lender approval, on one or more occasions increase commitments under the term loan in an amount not to exceed $400 million in the aggregate. The term loan accrues interest at rates that are equal to, at our election, either Bank of America's alternate base rate plus a margin that ranges from 0.0% to 0.125% or LIBOR plus a margin that ranges from 0.625% to 1.125%. Actual margins under either election will be based on our senior debt credit ratings. The term loan is subject to quarterly principal payments of $12.5 million through October 31, 2020 with the balance payable on February 1, 2021. At October 31, 2020, $325 million was outstanding under the term loan.

The amended and restated credit agreement includes customary affirmative and negative covenants, including financial covenants that require us to maintain a ratio of total gross debt to annual earnings before interest, taxes, depreciation and amortization (EBITDA) of not greater than 3.25 to 1.00 as of any date and a ratio of annual EBITDA to annual interest expense of not less than 3.00 to 1.00 as of the last day of each fiscal quarter. As of October 31, 2020 we were compliant with all required covenants.

Secured Revolving Credit Facility

On February 19, 2019, a subsidiary of Intuit entered into a two-year $300 million secured revolving credit facility with a lender. The revolving credit facility is secured by cash and receivables of the subsidiary and is non-recourse to Intuit Inc. Advances under this secured revolving credit facility are used to fund a portion of our loans to qualified small businesses and accrue interest at LIBOR plus 2.39%. Unused portions of the credit facility accrue interest at a rate of 0.50%. On March 2, 2020, we amended the secured revolving credit facility to extend the commitment term from February 19, 2021 to February 19, 2022 and the final maturity date from August 19, 2021 to August 19, 2022. The agreement includes certain affirmative and negative covenants, including financial covenants that require the subsidiary to maintain specified financial ratios. As of October 31, 2020 we were compliant with all required covenants. At October 31, 2020, $48 million was outstanding under this facility, with a weighted-average interest rate of 5.7%, which includes the unused facility fee. The outstanding balance is secured by cash and receivables of the subsidiary totaling $146 million.

Cash Held by Foreign Subsidiaries

Our cash, cash equivalents, and investments totaled $5.8 billion at October 31, 2020. Approximately 4% of those funds were held by our foreign subsidiaries and subject to repatriation tax considerations. These foreign funds were located primarily in the United Kingdom, Canada, and India. As a result of the 2017 Tax Cuts and Jobs Act we do not expect to pay incremental U.S. taxes on repatriation. We have recorded income tax expense for Canada and India withholding taxes on earnings that are not permanently reinvested. In the event that funds from foreign operations are repatriated to the United States, we would pay withholding taxes at that time.

Off-Balance Sheet Arrangements

At October 31, 2020, we did not have any significant off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

Contractual Obligations

We presented our contractual obligations at July 31, 2020 in our Annual Report on Form 10-K for the fiscal year then ended. There were no significant changes to our contractual obligations during the first three months of fiscal 2021.

Recent Accounting Pronouncements

For a description of recent accounting pronouncements, if any, and the potential impact of these pronouncements on our condensed consolidated financial statements, see Note 1 to the financial statements in Part I, Item 1 of this Quarterly Report.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes to our quantitative and qualitative disclosures about market risk during the three months ended October 31, 2020. See Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended July 31, 2020 for a detailed discussion of our market risks.

ITEM 4 - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Based upon an evaluation of the effectiveness of disclosure controls and procedures, Intuit's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures as defined under Exchange Act Rules 13a-15(e) and 15d-15(e) were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

During our most recent fiscal quarter, there has not occurred any change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

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

ITEM 1A - RISK FACTORS

Our businesses routinely encounter and address risks, many of which could cause our future results to be materially different than we presently anticipate. Below, we describe significant factors, events and uncertainties that make an investment in our securities risky, categorized solely for ease of reference as strategic, operational, legal and compliance, and financial risks. The following events and consequences could have a material adverse effect on our business, growth, prospects, financial condition, results of operations, cash flows, liquidity, credit rating and reputation, and the trading price of our common stock could decline. These risks are not the only ones we face. We could also be affected by other events, factors or uncertainties that are presently unknown to us or that we do not currently consider to present significant risks to our business. These risks may be amplified by the COVID-19 pandemic, which has caused significant global economic instability and uncertainty. The manner in which we respond to future developments as well as our competitors' reactions to those developments may affect our future operating results.

The COVID-19 pandemic has caused significant economic instability and uncertainty and has had and may continue to have an adverse effect on our business, results of operations and financial condition.

The COVID-19 pandemic has caused economic instability and uncertainty globally and has had a negative impact, and may in the future have a material adverse impact, on our business. The COVID-19 pandemic has negatively impacted our small business results as a significant number of small businesses have closed or scaled back their offerings, particularly in light of shelter-in-place and similar directives. The severity and duration of the pandemic's impact on our operational and financial performance are uncertain and will depend on many factors beyond our control. Potential and current negative impacts of the pandemic include, but are not limited to, the following:

- Reduction in customer demand for our products and services, decreased consumer spending levels, reduced small business payment charge volumes and payrolls and potential decreases in the number of tax returns filed could materially harm our results of operations.
- The extension of federal and state tax filing deadlines for the 2019 tax year changed the seasonality of our business, making our revenue and operating results more difficult to predict. Any future regulatory decisions could further increase the difficulty of forecasting our revenue and operating results, which could cause our business to materially suffer.
- There are new and more frequent attempts by malicious third parties seeking to take advantage of the pandemic to fraudulently gain access to our systems, which could cause us to expend significant resources to remediate and could damage our reputation.
- Changes to our business operations and the operations of our third-party partners, such as increased use of videoconferencing, the shift to working from home, and the complexity of resuming operations in our offices, has introduced new security and execution risks that could cause us to experience substantial financial losses, lose the confidence of our customers and government agencies and harm our revenues and earnings.
- Potential disruption of services on which we rely to deliver our services to our customers, including our third-party customer success partners and financial institutions, could prevent us or our service providers from delivering critical services to our customers or accepting and fulfilling customer orders, any of which could materially and adversely affect our business or reputation.
- Increased, divergent and changing governmental regulations, such as shelter-in-place orders and closures of work facilities, schools, public buildings and businesses, could make it considerably more difficult to develop, enhance and support our products and services, which may cause our results of operations and financial condition to suffer.
- Failure to realize some or all of the anticipated benefits of our mergers and acquisitions activities for reasons related to the pandemic may cause us to experience losses that result in significant harm to our operating results or financial condition.

- We may be unable to obtain financing in the current economic environment on terms that are favorable or acceptable to us, or at all, which could impair our cash flows and restrict our ability to execute on our strategic initiatives and react to changes in our business or the environment.
- As a result of financial hardship experienced by our customers related to the pandemic, we may experience higher than normal customer refunds and a significant increase in risk of collecting customer payments or loans receivable, which could harm our results of operations.
- There could be increased volatility in our stock price related to the pandemic, which could result in the loss of some or all of the value of an investment in Intuit.

These and other potential negative impacts relating to the COVID-19 pandemic are described further in the risk factors that follow.

STRATEGIC RISKS

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

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

We face intense competition in all of our businesses, and we expect competition to remain intense in the future. Our competitors and potential competitors range from large and established entities to emerging start-ups. Our competitors may introduce superior products and services, reduce prices, have greater technical, marketing and other resources, have greater name recognition, have larger installed bases of customers, have well-established relationships with our current and potential customers, advertise aggressively or beat us to market with new products and services. In addition, we face competition from existing companies, with large established consumer user-bases and broad-based platforms, who may change or expand the focus of their business strategies and marketing to target our customers, including small businesses and tax customers.

We also face competition from companies with a variety of business models, including increased competition from providers of free offerings, particularly in our tax, accounting, and payments businesses. In order to compete, we have also introduced free offerings in several categories, but we may not be able to attract customers as effectively as competitors with different business models. In addition, other providers of free offerings may provide features that we do not offer and customers who have formerly paid for Intuit’s products and services may elect to use our competitors’ free offerings instead. These competitive factors may diminish our revenue and profitability, and harm our ability to acquire and retain customers.

Our consumer tax business also faces significant potential competition from the public sector, where we face the risk of federal and state taxing authorities proposing revenue raising strategies that involve developing and providing government tax software or other government return preparation systems at public expense. These or similar programs may be introduced or expanded in the future, which may change the voluntary compliance tax system in ways that could cause us to lose customers and revenue. The IRS Free File Program is currently the sole means by which the IRS offers tax software to taxpayers and, in December 2019, the agreement governing the program was amended to eliminate the pledge by the IRS that it will not offer a duplicative or competing service. Under this program, the IRS has worked with private industry to provide more than 56 million free returns since 2003, utilizing donated private sector tax software and e-filing services for low and middle income taxpayers at no cost to the government or individual users. However, its continuation depends on a number of factors, including increasing public awareness of and access to the free program, as well as continued government support. The current agreement is scheduled to expire in October 2021. Recently, we have become the subject of certain legal proceedings and regulatory inquiries relating to the provision and marketing of the product that we offer under the IRS Free File Program. While we believe that the allegations in these proceedings are without merit, the proceedings may decrease the government’s support of such program and increase the likelihood that such program is terminated. If the Free File Program were to be terminated or the IRS were to enter the software development and return preparation space, the federal government could become a publicly funded direct competitor of the U.S. tax services industry and of Intuit. Government funded services that curtail or eliminate the role of taxpayers in preparing their own taxes could potentially have material and adverse revenue implications.

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

We operate in industries that are characterized by rapidly changing technology, evolving industry standards and frequent new product introductions. We must continue to innovate and develop new products and features to meet changing customer needs and attract and retain talented software developers. We need to continue to develop our skills, tools and capabilities to capitalize on existing and emerging technologies, which requires us to devote significant resources.

Our consumer and professional tax businesses depend significantly on revenue from customers who return each year to use our updated tax preparation and filing software and services. As our existing products mature, encouraging customers to purchase product upgrades becomes more challenging unless new product releases provide features and functionality that have meaningful incremental value. We also provide additional customer benefits by utilizing customer data available to us through our existing offerings. If we are not able to develop and clearly demonstrate the value of new or upgraded products or services to our customers, or effectively utilize our customers' data to provide them with value, our revenues may be harmed. In addition, as we continue to introduce and expand our new business models, including offerings that are free to end users, our customers may not perceive value in the additional benefits and services we offer beyond our free offering and may choose not to pay for those additional benefits or we may be unsuccessful in increasing customer adoption of these offerings or our risk profile may change, resulting in loss of revenue.

We have devoted significant resources to develop products and services for users of mobile devices, but the versions of our products and services developed for these devices may not be compelling to users. Even if we are able to attract new users through these mobile offerings, the amount of revenue that we derive per user from mobile offerings may be less than the revenue that we have historically derived from users of personal computers. As new devices and new platforms are continually being released, it is difficult to predict the problems we may encounter in developing versions of our products and services for use on mobile devices and we may need to devote significant resources to the creation, support, and maintenance of such offerings. If we are slow to develop products and technologies that are compatible with mobile devices, or if our competitors are able to achieve those results more quickly than us, we will fail to capture a significant share of an increasingly important portion of the market for online services, which could adversely affect our business. Further, legislation or regulatory changes may mandate changes in our products that make them less attractive to users.

In some cases, we may expend a significant amount of resources and management attention on offerings that do not ultimately succeed in their markets. We have encountered difficulty in launching new products and services in the past. If we misjudge customer needs in the future, our new products and services may not succeed and our revenues and earnings may be harmed. We have also invested, and in the future, expect to invest in new business models, geographies, strategies and initiatives. Such endeavors may involve significant risks and uncertainties, including distraction of management from current operations, expenses associated with the initiatives and inadequate return on investments. Because these new initiatives are inherently risky, they may not be successful and may harm our financial condition and operating results.

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

Many of our products and services include intellectual property of third parties, which we license under agreements that may need to be renewed or renegotiated from time to time. We may not be able to obtain licenses to these third-party technologies or content on reasonable terms, or at all. If we are unable to obtain the rights necessary to use this intellectual property in our products and services, we may not be able to sell the affected offerings, and customers who are currently using the affected product may be disrupted, which may in turn harm our future financial results, damage our brand, and result in customer loss. Also, we and our customers have been and may continue to be subject to infringement claims as a result of the third-party intellectual property incorporated in our offerings. Although we try to mitigate this risk and we may not be ultimately liable for any potential infringement, pending claims require us to use significant resources, require management attention and could result in loss of customers.

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

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

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

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

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

Developing and maintaining awareness of our brands is critical to achieving widespread acceptance of our existing and future products and services and is an important element in attracting new customers. Adverse publicity (whether or not justified) relating to events or activities attributed to us, members of our workforce, agents, third parties we rely on, or our users, may tarnish our reputation and reduce the value of our brands. Our brand value also depends on our ability to provide secure and trustworthy products and services as well as our ability to protect and use our customers' data in a manner that meets their expectations. In addition, a security incident which results in unauthorized disclosure of our customers' sensitive data could cause material reputational harm. Damage to our reputation and loss of brand equity may reduce demand for our products and services and thus have an adverse effect on our future financial results, as well as require additional resources to rebuild our reputation and restore the value of the brands and could also reduce our stock price.

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

We have acquired and may continue to acquire companies, products, technologies and talent that complement our strategic direction, both in and outside the United States. Acquisitions, including our pending acquisition of Credit Karma (the "Transaction"), involve significant risks and uncertainties, including:

- inability to successfully integrate the acquired technology, data assets and operations into our business and maintain uniform standards, controls, policies, and procedures;
- inability to realize synergies expected to result from an acquisition;
- disruption of our ongoing business and distraction of management;
- challenges retaining the key employees, customers, resellers and other business partners of the acquired operation;
- the internal control environment of an acquired entity may not be consistent with our standards or with regulatory requirements, and may require significant time and resources to align or rectify;
- unidentified issues not discovered in our due diligence process, including product or service quality issues, intellectual property issues and legal contingencies;
- failure to successfully further develop an acquired business or technology and any resulting impairment of amounts currently capitalized as intangible assets;
- risks associated with businesses we acquire or invest in, which may differ from or be more significant than the risks our other businesses face;
- in the case of foreign acquisitions and investments, the impact of particular economic, tax, currency, political, legal and regulatory risks associated with specific countries; and
- to the extent we use debt to fund acquisitions or for other purposes, our interest expense and leverage will increase significantly, and to the extent we issue equity securities as consideration in an acquisition, current shareholders' percentage ownership and earnings per share will be diluted.

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

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

In addition, any acquisition or divestiture that we announce may not be completed if closing conditions are not satisfied. Because acquisitions and divestitures are inherently risky, our transactions may not be successful and may, in some cases, harm our operating results or financial condition. In particular, the completion of the Transaction is subject to the satisfaction or waiver of a number of conditions as set forth in the related merger agreement, including, among others, the expiration or termination of the applicable waiting periods pursuant to the Hart-Scott-Rodino Act and no applicable law having been enacted that prohibits the consummation of the Transaction. There can be no assurance that the parties will be able to satisfy the closing conditions or that closing conditions beyond our or Credit Karma's control will be satisfied or waived. If the Transaction and the integration of the companies' respective businesses are not completed within the expected time frame, such delay may materially and adversely affect the synergies and other benefits that we and Credit Karma expect to achieve as a result of the Transaction and could result in additional transaction costs, loss of revenue or other effects associated with uncertainty about the Transaction. Moreover, the impact of COVID-19, adverse changes in market conditions, additional transaction and integration-related costs and other factors that may be exacerbated by the impact of COVID-19, such as the failure to realize some or all of the anticipated benefits of the Transaction, may cause the Transaction to be dilutive to Intuit's operating earnings per share in the first fiscal year after close or beyond. Any dilution of our non-GAAP diluted earnings per share could cause the price of shares of Intuit Common Stock to decline or grow at a reduced rate.

OPERATIONAL RISKS

Operational risks arise from internal and external events relating to systems, processes and people. Risks that affect the operation of our businesses include the following: potential security incidents; privacy and cybersecurity concerns relating to online offerings; fraudulent activities by third parties; relationships with third parties; competition for and retention of key talent; issues with our product launches; problems with our information technology infrastructure; and risks associated with operating internationally.

Security incidents, improper access to or disclosure of our data or customers' data, or other cyberattacks on our systems could harm our reputation and adversely affect our business.

We host, collect, use and retain large amounts of sensitive and personal customer and workforce data, including credit card information, tax return information, bank account numbers, login credentials and passwords, personal and business financial data and transactions data, social security numbers and payroll information, as well as our confidential, nonpublic business information. We use commercially available security technologies and security and business controls to limit access to and use of such sensitive data. Although we expend significant resources to create security protections designed to shield this data against potential theft and security breaches, such measures cannot provide absolute security.

Our technologies, systems, and networks have been subject to, and are likely to continue to be the target of, cyberattacks, computer viruses, worms, social engineering, malicious software programs, insider threats, and other cybersecurity incidents that could result in the unauthorized release, gathering, monitoring, use, loss or destruction of sensitive and personal data of our customers and members of our workforce, or Intuit's sensitive business data or cause temporary or sustained unavailability of our software and systems. These types of incidents can be made by individuals, groups of hackers, and sophisticated organizations including state-sponsored organizations or nation-states themselves. Customers who fail to update their systems, continue to run software that we no longer support or that fail to install security patches on a timely basis create vulnerabilities and make it more difficult for us to detect and prevent these kinds of attacks. We are increasingly incorporating open source software into our products. There may be vulnerabilities in open source software that make it susceptible to cyberattacks. In addition, because the techniques used to obtain unauthorized access to sensitive information change frequently, and are becoming more sophisticated and are often not able to be detected until after a successful attack, we may be unable to anticipate these techniques or implement adequate preventive measures. Although this is an industry-wide problem that affects software and hardware across platforms, it may increasingly affect our offerings because cyber-criminals tend to focus their efforts on well-known offerings that are popular among customers and hold sensitive information and we expect them to continue to do so.

Further, the security measures that we implement may not be able to prevent unauthorized access to our products and our customers' account data. Third parties may fraudulently induce members of our workforce, customers, or users by social engineering means, such as email phishing, to disclose sensitive information in order to gain access to our systems. It is also possible that unauthorized access to or disclosure of customer data may occur due to inadequate use of security controls by our customers or members of our workforce. Accounts created with weak or recycled passwords could allow cyberattackers to gain access to customer data. Unauthorized persons could gain access to customer accounts if customers do not maintain effective access controls of their systems and software. In addition, we are experiencing new and more frequent attempts by third parties to use the COVID-19 pandemic to fraudulently gain access to our systems, such as through increased email phishing of our workforce.

Criminals may also use stolen identity information obtained outside of our systems to gain unauthorized access to our customers' data. We have experienced such instances in the past and as the accessibility of stolen identity information increases, generally, we may experience further instances of unauthorized access to our systems through the use of stolen identity information of our customers or members of our workforce in the future. Further, our customers may choose to use the same user ID and password across multiple products and services unrelated to our products. Such customers' login credentials may be stolen from products offered by third-party service providers unrelated to us and the stolen identity information may be used by a malicious third party to access our products, which could result in disclosure of confidential information. In addition, in response to the COVID-19 pandemic, we have temporarily shifted nearly all our workforce from office locations to work from home environments, which increases our exposure to security-related risks due to operational changes, such as the increased use of videoconferencing.

Our efforts to protect data may also be unsuccessful due to software bugs (whether open source or proprietary code), break-ins, workforce member error or other threats that evolve.

Further, because we have created an ecosystem where customers can have one identity across multiple Intuit products, a security incident may give access to increased amounts of customer data. This may result in disclosure of confidential information, loss of customer confidence in our products, possible litigation, material harm to our reputation and financial condition, disruption of our or our customers' business operations and a decline in our stock price. From time to time, we detect, or receive notices from customers or public or private agencies that they have detected, actual or perceived vulnerabilities in our servers, our software or third-party software components that are distributed with our products or fraudulent activity by unauthorized persons utilizing our products with stolen customer identity information. The existence of such vulnerabilities or fraudulent activity, even if they do not result in a security breach, may undermine customer confidence as well as the confidence of government agencies that regulate our offerings. Such perceived vulnerabilities could also seriously harm our business by tarnishing our reputation and brand and/or limiting the adoption of our products and services and could cause our stock price to decline.

A cybersecurity incident affecting the third parties we rely on could expose us or our customers to a risk of loss or misuse of confidential information and significantly damage our reputation.

We depend on a number of third parties, including vendors, developers and partners who are critical to our business. We or our customers may grant access to customer data to these third parties to help deliver customer benefits, or to host certain of our and our customers' sensitive and personal data. In addition, we share sensitive, nonpublic business information (including, for example, materials relating to financial, business and legal strategies) with other vendors in the ordinary course of business.

While we conduct background checks of our workforce, conduct reviews of partners, developers and vendors and use commercially available technologies to limit access to systems and data, it is possible that one or more of these individuals or third parties may misrepresent their intended use of data or may circumvent our controls, resulting in accidental or intentional disclosure or misuse of our customers' or employees' data. Further, while we conduct due diligence on these third parties with respect to their security and business controls, we may not have the ability to effectively monitor or oversee the implementation of these control measures. Individuals or third parties may be able to circumvent these security and business controls and/or exploit vulnerabilities that may exist in these controls, resulting in the disclosure or misuse of sensitive business and personal customer or employee information and data.

A security incident involving third parties whom we rely on may have serious negative consequences for our businesses, including disclosure of sensitive customer or employee data, or confidential or competitively sensitive information regarding our business, including intellectual property and other proprietary data; make our products more vulnerable to fraudulent activity; cause temporary or sustained unavailability of our software and systems; result in possible litigation, fines, penalties and damages; result in loss of customer confidence; cause material harm to our reputation and brands; lead to further regulation and oversight by federal or state agencies; cause adverse financial condition; and result in a reduced stock price.

Concerns about the current privacy and cybersecurity environment, generally, could deter current and potential customers from adopting our products and services and damage our reputation.

The continued occurrence of cyberattacks and data breaches on governments, businesses and consumers in general indicates that we operate in an external environment where cyberattacks and data breaches are becoming increasingly common. If the global cybersecurity environment worsens, and there are increased instances of security breaches of third-party offerings where consumers' data and sensitive information is compromised, consumers may be less willing to use online offerings, particularly offerings like ours in which customers often share sensitive financial data. In addition, the increased availability of data obtained as a result of breaches of third-party offerings could make our own products more vulnerable to fraudulent activity. Even if our products are not affected directly by such incidents, any such incident could damage our reputation and deter current and potential customers from adopting our products and services or lead customers to cease using online and connected software products to transact financial business altogether.

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

The online tax preparation, payroll administration, online payments and lending industries have been experiencing an increasing amount of fraudulent activities by third parties, and those fraudulent activities are becoming increasingly sophisticated. Although we do not believe that any of this activity is uniquely targeted at our products or business, this type of fraudulent activity may adversely impact our tax, payroll, and payments and lending businesses and is heightened while we are responding to the COVID-19 pandemic with measures such as requiring nearly all of our workforce to work from home. In addition to any losses that may result from such fraud, which may be substantial, a loss of confidence by our customers or by governmental agencies in our ability to prevent fraudulent activity that is perpetrated through our offerings may seriously harm our business and damage our brand. If we cannot adequately combat such fraudulent activity that is perpetrated through our tax and lending offerings, governmental authorities may refuse to allow us to continue to offer such services, or these services may otherwise be adversely impacted, which could include federal or state tax authorities refusing to allow us to process our customers' tax returns electronically, resulting in a significant adverse impact on our earnings and revenue. As fraudulent activities become more pervasive and increasingly sophisticated, and fraud detection and prevention measures must become correspondingly more complex to combat them across the various industries in which we operate, we may implement risk control mechanisms that could make it more difficult for legitimate customers to obtain and use our products, which could result in lost revenue and negatively impact our earnings.

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

Our operations process a significant volume and dollar value of transactions on a daily basis, especially in our payroll and payments businesses. Despite our efforts to ensure that effective processing systems and controls are in place to handle transactions appropriately, it is possible that we may make errors or that funds may be misappropriated due to fraud. The likelihood of any such error or misappropriation may increase as we accelerate the speed at which we process transactions. The systems supporting our business are comprised of multiple technology platforms that are sometimes difficult to scale. If we are unable to effectively manage our systems and processes, or if there is an error in our products, we may be unable to process customer data in an accurate, reliable and timely manner, which may harm our reputation, the willingness of customers to use our products, and our financial results. In our payments processing service business, if merchants for whom we process payment transactions are unable to pay refunds due to their customers in connection with disputed or fraudulent merchant transactions, we may be required to pay those amounts and our payments may exceed the amount of the customer reserves we have established to make such payments.

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

Our reputation and ability to attract, retain and serve our customers is dependent upon the reliable performance of our products and our underlying technical infrastructure. As we continue to grow our online services, we become more dependent on the continuing operation and availability of our information technology and communications systems and those of our external service providers, including, for example, third-party Internet-based or cloud computing services. We do not have redundancy for all of our systems, and our disaster recovery planning may not account for all eventualities. We have designed a significant portion of our software and computer systems to utilize data processing and storage capabilities provided by public cloud providers, such as Amazon Web Services. If any public cloud service that we use is unavailable to us for any reason, our customers may not be able to access certain of our cloud products or features, which could significantly impact our operations, business, and financial results.

Failure of our systems or those of our third-party service providers, may result in interruptions in our service and loss of data or processing capabilities, all of which may cause a loss in customers, refunds of product fees, material harm to our reputation and operating results.

Our tax businesses must effectively handle extremely heavy customer demand during critical peak periods, which typically occur from January until April of each year. We face significant risks in maintaining adequate service levels during these peak periods when we derive a substantial portion of our overall revenue from the tax businesses. Any interruptions in our online tax preparation or electronic filing service at any time during the tax season, particularly during a peak period, could result in significantly decreased revenue, lost customers, unexpected refunds of customer charges, negative publicity and increased operating costs, any of which could significantly harm our business, financial condition and results of operations.

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

Our business operations, data centers, information technology and communications systems are vulnerable to damage or interruption from natural disasters, human error, malicious attacks, fire, power loss, telecommunications failures, computer viruses, computer denial of service attacks, terrorist attacks, health emergencies, such as the COVID-19 pandemic, and other events beyond our control. For example, our employees are largely concentrated in California and India, each of which have been affected by the COVID-19 pandemic and subject to governmental actions designed to contain the spread of COVID-19, such as limitations on the size of gatherings, closures of work facilities, schools, public buildings and businesses, quarantines, lockdowns and travel restrictions. The closure of our facilities in those and other areas in which we operate, and other restrictions inhibiting our employees' ability to access our facilities, have disrupted, and could continue to disrupt our business operations. We have also modified our business practices in connection with the pandemic (including employee travel, employee work locations and cancellation of physical participation in meetings, events and conferences), and we may take further actions as may be required by government authorities or that we determine are in the best interests of our employees, customers or third-party partners. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus, and that such measures will not impair our ability to perform critical functions. Any such measures could make it considerably more difficult to develop, enhance and support our products and services.

We cannot predict how long any such measures will be in place and whether we would reimplement or enhance any such measures in one or more locations in order to respond to the effects of the pandemic or the rules, regulations or guidelines of any governmental authority. Moreover, the complexity of resuming operations in our offices could introduce new execution risks and we may experience longer-term disruptions to our operations, such as shifts in the work location preferences of our workforce for personal health and safety reasons.

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

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

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

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

Our growth is increasingly dependent on the strength of our business relationships and our ability to continue to develop, manage and maintain new and existing relationships with third-party partners. We rely on various third-party partners, including software and service providers, suppliers, vendors, manufacturers, distributors, accountants, contractors, financial institutions, core processors, licensing partners and development partners, among others, in many areas of our business in order to deliver our offerings and operate our business. We also rely on third parties to support the operation of our business by maintaining our physical facilities, equipment, power systems and infrastructure. In certain instances, these third-party relationships are sole source or limited source relationships and can be difficult to replace or substitute depending on the level of integration of the third party's products or services into, or with, our offerings and/or the general availability of such third party's products and services. In addition, there may be few or no alternative third-party providers or vendors in the market. Further, there can be no assurance that we will be able to adequately retain third-party contractors engaged to help us operate our business.

Additionally, the business operations of our third-party partners have been and could continue to be disrupted by the COVID-19 pandemic and the actions taken in response to it, including the pandemic's effects on their third-party partners. If our third-party partners are unable to help us operate our business as a result of the COVID-19 pandemic, our business and financial results may be negatively impacted. The failure of third parties to provide acceptable and high quality products, services and technologies or to update their products, services and technologies may result in a disruption to our business operations and our customers, which may reduce our revenues and profits, cause us to lose customers and damage our reputation. Alternative arrangements and services may not be available to us on commercially reasonable terms or at all, or we may experience business interruptions upon a transition to an alternative partner.

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

In particular, we have relationships with banks, credit unions and other financial institutions that support certain critical services we offer to our customers. If macroeconomic conditions or other factors, including the effects of the COVID-19 pandemic, cause any of these institutions to fail, consolidate, stop providing certain services or institute cost-cutting efforts, our business and financial results may suffer and we may be unable to offer those services to our customers.

We increasingly utilize the distribution platforms of third parties like Apple's App Store and Google's Play Store for the distribution of certain of our product offerings. Although we benefit from the strong brand recognition and large user base of these distribution platforms to attract new customers, the platform owners have wide discretion to change the pricing structure, terms of service and other policies with respect to us and other developers. Any adverse changes by these third parties could adversely affect our financial results.

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

Much of our future success depends on the continued service and availability of skilled personnel, including members of our executive team, and those in technical and other key positions. Experienced personnel in the software, mobile technologies, data science, data security, and software as a service industries are in high demand and competition for their talents is intense, especially in California and India, where the majority of our employees are located. Also, as we strive to continue to adapt to technological change and introduce new and enhanced products and business models, we must be able to secure, maintain and develop the right quality and quantity of engaged and committed talent. The incentives we have available to attract, retain, and motivate employees provided by our equity awards may become less effective, and if we were to issue significant equity to attract additional employees, the ownership of our existing stockholders would be diluted. Although we strive to be an employer of choice, we may not be able to continue to successfully attract, retain and develop key personnel, which may cause our business to suffer.

If we experience significant product accuracy or quality problems or delays in product launches, it may harm our revenue, earnings and reputation.

All of our tax products and many of our non-tax products have rigid development timetables that increase the risk of errors in our products and the risk of launch delays. Our tax preparation software product development cycle is particularly challenging due to the need to incorporate unpredictable and potentially late tax law and tax form changes each year and because our customers expect high levels of accuracy and a timely launch of these products to prepare and file their taxes by the tax filing deadline. Due to the complexity of our products and the condensed development cycles under which we operate, our products may contain errors that could unexpectedly interfere with the operation of the software or result in incorrect calculations. The complexity of the tax laws on which our products are based may also make it difficult for us to consistently deliver offerings that contain the features, functionality and level of accuracy that our customers expect. When we encounter problems we may be required to modify our code, work with state tax administrators to communicate with affected customers, assist customers with amendments, distribute patches to customers who have already purchased the product and recall or repackage existing product inventory in our distribution channels. If we encounter development challenges or discover errors in our products either late in our development cycle or after release it may cause us to delay our product launch date or suspend product availability until such issues can be fixed. Any major defects, launch delays or product suspensions may lead to loss of customers and revenue, negative publicity, customer and employee dissatisfaction, reduced retailer shelf space and promotions, and increased operating expenses, such as inventory replacement costs, legal fees or other payments, including those resulting from our accuracy guarantee in our tax preparation products. For example, an error in our tax products could cause a compliance error for taxpayers, including the over or underpayment of their federal or state tax liability. While our accuracy guarantee commits us to reimburse penalties and interest paid by customers due solely to calculation errors in our tax preparation products, such errors may result in additional burdens on third parties that we may need to address or that may cause us to suspend the availability of our products until such errors are addressed. This could also affect our reputation, the willingness of customers to use our products, and our financial results. Further, as we develop our platform to connect people to experts, such as connecting TurboTax customers with tax experts through our TurboTax Live offering, or connecting QuickBooks customers with bookkeepers through our QuickBooks Live offering, we face the risk that these experts may provide advice that is erroneous, ineffective or otherwise unsuitable. Any such deficiency in the advice given by these experts may cause harm to our customers, a loss of customer confidence in our offerings or harm to our reputation or financial results.

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

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

- different or more restrictive privacy, data protection, data localization, and other laws that could require us to make changes to our products, services and operations, such as mandating that certain types of data collected in a particular country be stored and/or processed within that country;
- difficulties in developing, staffing, and simultaneously managing a large number of varying foreign operations as a result of distance, language, and cultural differences;
- stringent local labor laws and regulations;
- credit risk and higher levels of payment fraud;
- profit repatriation restrictions, and foreign currency exchange restrictions;
- geopolitical events, including natural disasters, acts of war and terrorism, and health emergencies, including divergent governmental responses thereto across the jurisdictions in which we operate;
- import or export regulations;
- compliance with the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, and laws and regulations of other jurisdictions prohibiting corrupt payments to government officials and other third parties;

- antitrust and competition regulations;
- potentially adverse tax developments;
- economic uncertainties relating to European sovereign and other debt;
- trade barriers and changes in trade regulations;
- political or social unrest, economic instability, repression, or human rights issues; and
- risks related to other government regulation or required compliance with local laws.

Violations of the rapidly evolving and complex foreign and U.S. laws and regulations that apply to our international operations may result in fines, criminal actions or sanctions against us, our officers or our employees, prohibitions on the conduct of our business and damage to our reputation. Although we have implemented policies and procedures designed to promote compliance with these laws, we cannot be sure that our employees, contractors and agents are in compliance with our policies. These risks inherent in our international operations and expansion increase our costs of doing business internationally and may result in harm to our business, operating results, and financial condition.

LEGAL AND COMPLIANCE RISKS

Legal and compliance risks arise from change in the government and regulatory environment, including complex and evolving regulations relating privacy and data security; potential litigation; regulatory inquiries and intellectual property infringement claims.

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

The Company is subject to federal, state, local and international laws and regulations that affect the Company's activities, including, without limitation, areas of labor, advertising, tax, financial services, data privacy and security, electronic funds transfer, money transmission, lending, digital content, consumer protection, real estate, billing, e-commerce, promotions, quality of services, intellectual property ownership and infringement, import and export requirements, anti-corruption, foreign exchange controls and cash repatriation restrictions, anti-competition, environmental, health and safety, and other regulated activities. There have been significant new regulations and heightened focus by the government on many of these areas, as well as in areas such as insurance and privacy. As we expand our products and services and revise our business models, both domestically and internationally, we may become subject to additional government regulation or increased regulatory scrutiny. For example, in April 2020, one of our subsidiaries became a Small Business Administration ("SBA") approved lender under the SBA's recently established Paycheck Protection Program ("PPP") authorized by the Coronavirus Aid, Relief and Economic Security Act. Further, regulators (both in the U.S. and in other jurisdictions in which we operate) may adopt new laws or regulations, change existing regulations, or their interpretation of existing laws or regulations may differ from ours. In response to the COVID-19 pandemic, federal, state, local and foreign governmental authorities have imposed, and may continue to impose, protocols and restrictions intended to contain the spread of the virus, including limitations on the size of gatherings, closures of work facilities, schools, public buildings and businesses, quarantines, lockdowns and travel restrictions. Such restrictions have disrupted and may continue to disrupt our business operations and limit our ability to perform critical functions.

The tax preparation industry continues to receive heightened attention from federal and state governments. New legislation, regulation, public policy considerations, changes in the cybersecurity environment, litigation by the government or private entities, changes to or new interpretations of existing laws may result in greater oversight of the tax preparation industry, restrict the types of products and services that we can offer or the prices we can charge, or otherwise cause us to change the way we operate our tax businesses or offer our tax products and services. We may not be able to respond quickly to such regulatory, legislative and other developments, and these changes may in turn increase our cost of doing business and limit our revenue opportunities. In addition, if our practices are not consistent with new interpretations of existing laws, we may become subject to lawsuits, penalties, and other liabilities that did not previously apply. We are also required to comply with a variety of state revenue agency standards in order to successfully operate our tax preparation and electronic filing services.

Changes in state-imposed requirements by one or more of the states, including the required use of specific technologies or technology standards, may significantly increase the costs of providing those services to our customers and may prevent us from delivering a quality product to our customers in a timely manner.

Complex and evolving U.S. and international laws and regulation regarding privacy and data protection could result in claims, changes to our business practices, penalties or increased cost of operations or otherwise harm our business.

Regulations related to the provision of online services is evolving as federal, state and foreign governments continue to adopt new or modify existing laws and regulations addressing data privacy and the collection, processing, storage, transfer and use of data. This includes, for example, the EU's General Data Protection Regulation (GDPR) and the new California Consumer Protection Act (CCPA), which became effective on January 1, 2020. In our efforts to meet the GDPR, CCPA and other data privacy regulations, we have made and continue to make certain operational changes to our products and business practices. If we are unable to engineer products that meet these evolving requirements or help our customers meet their obligations under these or other new data regulations, we might experience reduced demand for our offerings. Further, penalties for non-compliance with these laws may be significant.

In addition, the evolution of global privacy treaties and frameworks has created compliance uncertainty and increased complexity. For example, the recent judicial invalidation of the EU-U.S. and Swiss-U.S. Privacy Shield frameworks that we relied on to transfer data has created additional compliance challenges for the transfer of EU personal data to the U.S. While we rely on alternative methods for the transfer of this data, ongoing legal challenges to these and other transfer mechanisms could cause us to incur costs or change our business practices in a manner adverse to our business.

Other governmental authorities throughout the U.S. and around the world are considering similar types of legislative and regulatory proposals concerning data protection. Each of these privacy, security and data protection laws and regulations could impose significant limitations, require changes to our business, require notification to customers or workers of a security breach, restrict our use or storage of personal information, or cause changes in customer purchasing behavior which may make our business more costly, less efficient or impossible to conduct, and may require us to modify our current or future products or services, which may make customers less likely to purchase our products and may harm our future financial results. Additionally, any actual or alleged noncompliance with these laws and regulations could result in negative publicity and subject us to investigations, claims or other remedies, including demands that we modify or cease existing business practices, and expose us to significant fines, penalties and other damages. We have incurred, and may continue to incur, significant expenses to comply with existing privacy and security standards and protocols imposed by law, regulation, industry standards or contractual obligations.

We are frequently a party to litigation and regulatory inquiries which could result in an unfavorable outcome and have an adverse effect on our business, financial condition, results of operation and cash flows.

We are subject to various legal proceedings (including class action lawsuits), claims and regulatory inquiries that have arisen out of the ordinary conduct of our business and are not yet resolved and additional claims and inquiries may arise in the future. The number and significance of these claims and inquiries may increase as our businesses evolve. Any proceedings, claims or inquiries initiated by or against us, whether successful or not, may be time consuming; result in costly litigation, damage awards, consent decrees, injunctive relief or increased costs of business; require us to change our business practices or products; require significant amounts of management time; result in diversion of significant operations resources; or otherwise harm our business and future financial results. For further information about specific litigation, see Part II, Item 1, “Legal Proceedings.”

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

We may become increasingly subject to infringement claims, including patent, copyright, trade secret, and trademark infringement claims. Litigation may be necessary to determine the validity and scope of the intellectual property rights of others. We have received a number of allegations of intellectual property infringement claims in the past and expect to receive more claims in the future based on allegations that our offerings infringe upon the intellectual property held by third parties. Some of these claims are the subject of pending litigation against us and against some of our customers. These claims may involve patent holding companies or other adverse intellectual property owners who have no relevant product revenues of their own, and against whom our own intellectual property may provide little or no deterrence. The ultimate outcome of any allegation is uncertain and, regardless of outcome, any such claim, with or without merit, may be time consuming to defend, result in costly litigation, divert management’s time and attention from our business, require us to stop selling, delay shipping or redesign our products, or require us to pay monetary damages for royalty or licensing fees, or to satisfy indemnification obligations that we have with some of our customers. Our failure to obtain necessary license or other rights, or litigation arising out of intellectual property claims may harm our business.

We are subject to risks associated with information disseminated through our services.

The laws relating to the liability of online services companies for information such as online content disseminated through their services are subject to frequent challenges. In spite of settled law in the U.S., claims are made against online services companies by parties who disagree with the content. Where our online content is accessed on the internet outside of the U.S., challenges may be brought under foreign laws which do not provide the same protections for online services companies as in the U.S. These challenges in either U.S. or foreign jurisdictions may give rise to legal claims alleging defamation, libel, invasion of privacy, negligence, copyright or trademark infringement, or other theories based on the nature and content of the materials disseminated through the services. Certain of our services include content generated by users of our online services. Although this content is not generated by us, claims of defamation or other injury may be made against us for that content. Any costs incurred as a result of this potential liability may harm our business.

FINANCIAL RISKS

Financial risks relate to our ability to meet financial obligations and mitigate exposure to financial impacts to our businesses or our offerings. Financial risks arise from the following: seasonality; excessive subscription cancellations and product returns;

unanticipated changes in income tax rates; adverse global macro-economic conditions; credit risks; fluctuations in our net income; indebtedness; and the fluctuation of our stock price.

Our tax business is highly seasonal and our quarterly results fluctuate significantly.

Our tax offerings have significant seasonal patterns. Revenue from income tax preparation products and services is typically heavily concentrated during November through April and, for the 2019 tax season, this seasonality was affected by the IRS's extension of the federal tax filing deadline to July 15, 2020 and all states with personal income tax also extending their due dates, predominantly to July. This seasonality has caused significant fluctuations in our quarterly financial results. Our financial results may also fluctuate from quarter to quarter and year to year due to a variety of factors, including factors that may affect the timing of revenue recognition. These include changes to our offerings that result in the inclusion or exclusion of ongoing services; changes in product pricing strategies or product sales mix; the timing of the availability of federal and state tax forms from taxing agencies and the ability of those agencies to receive electronic tax return submissions; changes in customer behavior; and the timing of our discontinuation of support for older product offerings. Other factors that may affect our quarterly or annual financial results include the timing of acquisitions, divestitures, and goodwill and acquired intangible asset impairment charges. Any fluctuations in our operating results may adversely affect our stock price.

If actual customer refunds for our offerings exceed the amount we have reserved our future financial results may be harmed.

Like many software companies we refund customers for product returns and subscription cancellations. We establish reserves against revenue in our financial statements based on estimated customer refunds. We closely monitor this refund activity in an effort to maintain adequate reserves. In the past, customer refunds have not differed significantly from these reserves. However, if we experience actual customer refunds or an increase in risks of collecting customer payments, including as a result of financial hardship experienced by our customers related to the COVID-19 pandemic, that significantly exceed the amount we have reserved, it may result in lower net revenue.

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

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

An increasing number of states and foreign jurisdictions have adopted laws or administrative practices, that impose new taxes on all or a portion of gross revenue or other similar amounts or impose additional obligations to collect transaction taxes such as sales, consumption, value added, or similar taxes. We may not have sufficient lead time to build systems and processes to collect these taxes properly, or at all. Failure to comply with such laws or administrative practices, or a successful assertion by such states or foreign jurisdictions requiring us to collect taxes where we do not, could result in material tax liabilities, including for past sales, as well as penalties and interest.

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

Adverse macroeconomic developments could negatively affect our business and financial condition. Adverse global economic events have caused, and could, in the future, cause disruptions and volatility in global financial markets and increased rates of default and bankruptcy, and could impact consumer and small business spending. In particular, because the majority of our revenue is derived from sales within the U.S., economic conditions in the U.S. have an even greater impact on us than companies with a more diverse international presence. Challenging economic times could cause potential new customers not to purchase or to delay purchasing our products and services, and could cause our existing customers to discontinue purchasing or delay upgrades of our existing products and services, thereby negatively impacting our revenues and future financial results. Decreased consumer spending levels could also reduce credit and debit card transaction processing volumes causing reductions in our payments revenue. Poor economic conditions and high unemployment have caused, and could in the future cause, a significant decrease in the number of tax returns filed, which may have a significant effect on the number of tax returns we prepare and file. In addition, weakness in the end-user consumer and small business markets could negatively affect the cash flow of our distributors and resellers who could, in turn, delay paying their obligations to us, which could increase our credit risk exposure and cause delays in our recognition of revenue or future sales to these customers. Any of these events could harm our business and our future financial results.

The COVID-19 pandemic and the actions taken in response to it have significantly increased economic and demand uncertainty. The COVID-19 pandemic has caused a global recession and we cannot predict the extent to which existing small businesses will be able to survive such a downturn. Moreover, in connection with the COVID-19 pandemic, unemployment has increased significantly. Accordingly, the risks described in the paragraph above, including reduced customer demand for our products and services, decreased consumer spending levels and, in the future, decreases in the number of tax returns filed, may be more likely to materialize, any of which could harm our business and our future financial results.

We provide capital to small businesses, which exposes us to certain risk, and may cause us material financial or reputational harm.

We provide capital to qualified small businesses, which exposes us to the risk of our borrowers' inability to repay such loans. We have also entered into credit arrangements with financial institutions to obtain the capital we provide under this offering. Any termination or interruption in the financial institutions' ability to lend to us could interrupt our ability to provide capital to qualified small businesses. Further, our credit decisioning, pricing, loss forecasting, scoring and other models used to evaluate loan applications may contain errors or may not adequately assess creditworthiness of our borrowers, or may be otherwise ineffective, resulting in incorrect approvals or denials of loans. It is also possible that loan applicants could provide false or incorrect information. Moreover, the COVID-19 pandemic and the actions taken in response to it have had a significant impact on small businesses and may increase the likelihood that our borrowers are unable to repay their loans. If any of the foregoing events were to occur, our reputation, relationships with borrowers, collections of loans receivable and financial results could be harmed. In addition, one of our subsidiaries is a lender and a servicer under the PPP to support our small business customers and other eligible applicants during the pandemic. Our participation in this program exposes us to many of the risks described above and additional risks, such as borrower default, the SBA declining to forgive or honor its guarantee with respect to PPP loans and litigation or other disputes with borrowers or others related to our PPP activities.

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

Our acquisitions have resulted in significant expenses, including amortization and impairment of acquired technology and other acquired intangible assets, and impairment of goodwill. Total costs and expenses in these categories were $28 million in fiscal 2020; $26 million in fiscal 2019; and $21 million in fiscal 2018. Although under current accounting rules goodwill is not amortized, we may incur impairment charges related to the goodwill already recorded and to goodwill arising out of future acquisitions. We test the impairment of goodwill annually in our fourth fiscal quarter or more frequently if indicators of impairment arise. The timing of the formal annual test may result in charges to our statement of operations in our fourth fiscal quarter that may not have been reasonably foreseen in prior periods. At October 31, 2020, we had $1.7 billion in goodwill and $63 million in net acquired intangible assets on our condensed consolidated balance sheet, both of which may be subject to impairment charges in the future. New acquisitions, and any impairment of the value of acquired intangible assets, may have a significant negative impact on our future financial results.

We have incurred indebtedness and may incur other debt in the future, which may adversely affect our financial condition and future financial results.

As of October 31, 2020, we had an aggregate of $2.4 billion of indebtedness outstanding under our credit facilities and our senior unsecured notes. Under the agreements governing our indebtedness, we are permitted to incur additional debt. This debt, and any debt that we may incur in the future, may adversely affect our financial condition and future financial results by, among other things:

- increasing our vulnerability to downturns in our business, to competitive pressures and to adverse economic and industry conditions;
- requiring the dedication of a portion of our expected cash from operations to service our indebtedness, thereby reducing the amount of expected cash flow available for other purposes, including capital expenditures, share repurchases and acquisitions; and
- limiting our flexibility in planning for, or reacting to, changes in our businesses and our industries.

If we are unable to generate sufficient cash flow from operations in the future to service our debt, we may be required, among other things, to seek additional financing in the debt or equity markets, refinance or restructure all or a portion of our indebtedness, sell selected assets or reduce or delay planned capital, operating or investment expenditures. Such measures may not be sufficient to enable us to service our debt.

Additionally, the agreements governing our indebtedness impose restrictions on us and require us to comply with certain covenants. For example, our credit facilities restrict the ability of our subsidiaries to incur indebtedness and require us to maintain compliance with specified financial ratios. Our ability to comply with these ratios may be affected by events beyond our control. In addition, our credit facilities and the indenture governing our senior unsecured notes limit our ability to create liens our and subsidiaries' assets and engage in sale and leaseback transactions. If we breach any of these covenants and do not obtain a waiver from the lenders or the noteholders, as applicable, then, subject to applicable cure periods, any or all of our outstanding indebtedness may be declared immediately due and payable. There can be no assurance that any refinancing or additional financing would be available on terms that are favorable or acceptable to us, if at all.

Under the terms of our outstanding senior unsecured notes, we may be required to repurchase the notes for cash prior to their maturity in connection with the occurrence of certain changes of control that are accompanied by certain downgrades in the credit ratings of the notes. The repayment obligations under the notes may have the effect of discouraging, delaying or preventing a takeover of our company. If we were required to pay the notes prior to their scheduled maturity, it could have a negative impact on our cash position and liquidity and impair our ability to invest financial resources in other strategic initiatives.

In addition, changes by any rating agency to our credit rating may negatively impact the value and liquidity of both our debt and equity securities. If our credit ratings are downgraded or other negative action is taken, the interest rate payable by us under our unsecured revolving credit facility may increase. In addition, any downgrades in our credit ratings may affect our ability to obtain additional financing in the future and may negatively impact the terms of any such financing.

We cannot guarantee that our share repurchase program will be fully consummated or that it will enhance long-term stockholder value.

We have a stock repurchase program under which we are authorized to repurchase our common stock. The repurchase program does not have an expiration date and we are not obligated to repurchase a specified number or dollar value of shares. Our repurchase program may be suspended or terminated at any time. For example, in connection with our pending acquisition of Credit Karma, we have temporarily suspended share repurchases under our repurchase program in compliance with applicable federal securities laws. Even if our stock repurchase program is fully implemented, it may not enhance long-term stockholder value. Also, the amount, timing, and execution of our stock repurchase programs may fluctuate based on our priorities for the use of cash for other purposes and because of changes in cash flows, tax laws, and the market price of our common stock.

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

Our stock price is subject to changes in recommendations or earnings estimates by financial analysts, changes in investors' or analysts' valuation measures for our stock, our credit ratings and market trends unrelated to our performance. Furthermore, speculation in the press or investment community about our strategic position, financial condition, results of operations, business or security of our products, can cause changes in our stock price. These factors, as well as general economic and political conditions, including the effects of the COVID-19 pandemic, and the timing of announcements in the public market regarding new products, product enhancements or technological advances by our competitors or us, and any announcements by us of acquisitions, major transactions, or management changes may adversely affect our stock price. Moreover, the COVID-19 pandemic has caused significant volatility in the global financial markets, which has resulted in significant volatility in our stock price recently. Further, any changes in the amounts or frequency of share repurchases or dividends may also adversely affect our stock price. A significant drop in our stock price could expose us to the risk of securities class actions lawsuits, which may result in substantial costs and divert management's attention and resources, which may adversely affect our business.

ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Stock repurchase activity during the three months ended October 31, 2020 was as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans
August 1, 2020 through August 31, 2020	—	$ —	—	$ 2,370,765,174
September 1, 2020 through September 30, 2020	—	$ —	—	$ 2,370,765,174
October 1, 2020 through October 31, 2020	—	$ —	—	$ 2,370,765,174
Total	—	$ —	—	

Note: On August 19, 2016 we announced a plan under which we are authorized to repurchase up to $2 billion of our common stock. On August 21, 2018 our Board approved a new stock repurchase program under which we are authorized to repurchase up to an additional $2 billion of our common stock. At October 31, 2020, authorization from our Board of Directors to expend up to $2.4 billion remained available under these plans. In connection with our pending acquisition of Credit Karma, we have temporarily suspended share repurchases.

ITEM 6 - EXHIBITS

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

SIGNATURES

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

INTUIT INC.
(Registrant)

Date:	November 19, 2020	By:	/s/ MICHELLE M. CLATTERBUCK
			Michelle M. Clatterbuck Executive Vice President and Chief Financial Officer (Authorized Officer and Principal Financial Officer)

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference
10.01+	Amended and Restated Intuit Inc. Performance Incentive Plan, adopted October 28, 2020	X	
31.01	Certification of Chief Executive Officer	X	
31.02	Certification of Chief Financial Officer	X	
32.01*	Section 1350 Certification (Chief Executive Officer)	X	
32.02*	Section 1350 Certification (Chief Financial Officer)	X	
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	X	
101.SCH	XBRL Taxonomy Extension Schema	X	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	X	
101.LAB	XBRL Taxonomy Extension Label Linkbase	X	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	X	
101.DEF	XBRL Taxonomy Extension Definition Linkbase	X	
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)	X	

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