

AUTODESK INC
Form 10-Q
September 01, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 31, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 0-14338

AUTODESK, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

94-2819853
(I.R.S. Employer
Identification No.)

111 McInnis Parkway
San Rafael, California
(Address of principal executive offices)

(415) 507-5000

94903
(Zip Code)

(Registrant's telephone number, including area code)

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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 (Exchange Act) during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 24, 2010, there were 227,283,469 shares of the registrant's Common Stock outstanding.

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****AUTODESK, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In millions, except per share data)

(Unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2010	2009	2010	2009
Net revenue:				
License and other	\$ 280.7	\$ 231.0	\$ 560.5	\$ 474.6
Maintenance	192.1	183.9	386.9	366.1
Total net revenue	472.8	414.9	947.4	840.7
Cost of revenue:				
Cost of license and other revenue	40.5	44.8	81.7	88.9
Cost of maintenance revenue	7.9	5.3	18.0	13.5
Total cost of revenue	48.4	50.1	99.7	102.4
Gross profit	424.4	364.8	847.7	738.3
Operating expenses:				
Marketing and sales	177.5	176.4	364.0	360.3
Research and development	119.3	109.8	246.5	231.4
General and administrative	45.9	49.5	97.6	99.5
Restructuring charges	1.9	26.4	9.0	42.9
Impairment of goodwill				21.0
Total operating expenses	344.6	362.1	717.1	755.1
Income (loss) from operations	79.8	2.7	130.6	(16.8)
Interest and other income (expense), net	0.1	10.7	(3.3)	10.7
Income (loss) before income taxes	79.9	13.4	127.3	(6.1)
Provision for income taxes	(20.0)	(2.9)	(30.5)	(15.6)
Net income (loss)	\$ 59.9	\$ 10.5	\$ 96.8	\$ (21.7)
Basic net income (loss) per share	\$ 0.26	\$ 0.05	\$ 0.42	\$ (0.09)
Diluted net income (loss) per share	\$ 0.25	\$ 0.05	\$ 0.41	\$ (0.09)
Shares used in computing basic net income (loss) per share	228.0	228.9	228.5	228.0

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Shares used in computing diluted net income (loss) per share	233.8	232.3	234.5	228.0
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See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**AUTODESK, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In millions)

(Unaudited)

	July 31, 2010	January 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 850.0	\$ 838.7
Marketable securities	236.6	161.9
Accounts receivable, net	231.0	277.4
Deferred income taxes	43.6	44.2
Prepaid expenses and other current assets	56.2	57.4
Total current assets	1,417.4	1,379.6
Marketable securities	184.1	125.6
Computer equipment, software, furniture and leasehold improvements, net	88.5	101.6
Purchased technologies, net	73.6	88.0
Goodwill	545.7	542.9
Deferred income taxes, net	113.1	101.9
Other assets	102.6	107.6
	\$ 2,525.0	\$ 2,447.2
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 79.0	\$ 67.8
Accrued compensation	100.5	115.6
Accrued income taxes	23.0	8.4
Deferred revenue	454.2	444.6
Other accrued liabilities	66.4	67.6
Total current liabilities	723.1	704.0
Deferred revenue	71.9	71.9
Long term income taxes payable	135.1	127.2
Other liabilities	69.1	70.6
Commitments and contingencies		
Stockholders' equity:		
Preferred stock		
Common stock and additional paid-in capital	1,225.1	1,204.3
Accumulated other comprehensive loss	(2.9)	(3.5)
Retained earnings	303.6	272.7
Total stockholders' equity	1,525.8	1,473.5
	\$ 2,525.0	\$ 2,447.2

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**AUTODESK, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In millions)

(Unaudited)

	Six Months Ended July 31,	
	2010	2009
Operating activities:		
Net income (loss)	\$ 96.8	\$ (21.7)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	53.0	55.5
Stock-based compensation expense	45.3	44.4
Restructuring charges, net	9.0	42.9
Impairment of goodwill		21.0
Gain on disposition of assets		(2.3)
Changes in operating assets and liabilities, net of business combinations	46.5	(65.3)
Net cash provided by operating activities	250.6	74.5
Investing activities:		
Purchases of marketable securities	(318.7)	(298.2)
Sales of marketable securities	52.8	1.4
Maturities of marketable securities	135.8	14.3
Capital expenditures	(11.1)	(24.3)
Purchase of equity investment		(10.0)
Business combinations, net of cash acquired	(8.5)	
Other investing activities	(0.5)	
Net cash used in investing activities	(150.2)	(316.8)
Financing activities:		
Proceeds from issuance of common stock, net of issuance costs	40.1	44.1
Repurchases of common stock	(129.2)	
Draws on line of credit		2.2
Repayments of line of credit		(54.3)
Net cash used in financing activities	(89.1)	(8.0)
Effect of exchange rate changes on cash and cash equivalents		1.2
Net increase (decrease) in cash and cash equivalents	11.3	(249.1)
Cash and cash equivalents at beginning of fiscal year	838.7	917.6
Cash and cash equivalents at end of period	\$ 850.0	\$ 668.5

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**AUTODESK, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Tables in millions, except share and per share data, or as otherwise noted)

1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of Autodesk, Inc. (Autodesk or the Company) as of July 31, 2010, and for the three and six months ended July 31, 2010, have been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information along with the instructions to Form 10-Q and Article 10 of Securities and Exchange Commission (SEC) Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles (GAAP) for annual financial statements. In management's opinion, Autodesk has made all adjustments (consisting of normal, recurring and non-recurring adjustments) during the quarter that were considered necessary for the fair presentation of the financial position and operating results of the Company. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates. In addition, the results of operations for the three and six months ended July 31, 2010 are not necessarily indicative of the results for the entire fiscal year ending January 31, 2011, or for any other period. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and related notes, together with management's discussion and analysis of financial position and results of operations contained in Autodesk's Annual Report on Form 10-K for the fiscal year ended January 31, 2010 (the 2010 Form 10-K) filed on March 19, 2010.

Reclassifications

During the first quarter of fiscal 2011, Autodesk reclassified certain costs of revenue, which primarily included reclassifying shipping and fulfillment expenses from Cost of license and other revenue to Cost of maintenance revenue, due to a change in the Company's cost allocation methodology. These expenses have been reclassified in the Condensed Consolidated Statement of Operations for the three and six months ended July 31, 2009 to conform to the current period presentation as follows:

	Three Months Ended July 31, 2009	Six Months Ended July 31, 2009
Increase (Decrease) to Expense		
Cost of license and other revenue	(2.3)	(7.7)
Cost of maintenance revenue	2.3	7.7

2. Recently Issued Accounting Standards

With the exception of those discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the three months ended July 31, 2010, as compared to the accounting pronouncements described in Autodesk's Annual Report on Form 10-K for the fiscal year ended January 31, 2010, that are of significance, or potential significance, to the Company.

Recently Issued Accounting Standards

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-13 regarding Accounting Standards Codification (ASC) Subtopic 605-25 Revenue Recognition Multiple-element Arrangements. This ASU addresses criteria for separating the consideration in multiple-element arrangements. ASU 2009-13 will require companies to allocate the overall consideration to each deliverable by using a best estimate of the selling price of individual deliverables in the arrangement in the absence of vendor-specific objective evidence or other third-party evidence of the selling price. In October 2009, the FASB also issued ASU 2009-14 regarding ASC Topic 985

Software: Certain Revenue Arrangements That Include Software Elements. This ASU modifies the scope of ASC Subtopic 985-605, Software Revenue Recognition, to exclude (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality. The changes under ASU 2009-13 and 2009-14 will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, and early adoption is permitted.

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Autodesk currently plans to adopt the changes under ASU 2009-13 and 2009-14 effective February 1, 2011. Autodesk is currently assessing the impact that the adoption of these new accounting pronouncements will have on its consolidated financial position, results of operations and cash flows.

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In January 2010, the FASB issued ASU 2010-06 regarding ASC Topic 820 Fair Value Measurements and Disclosures. This ASU requires additional disclosure regarding significant transfers in and out of Levels 1 and 2 fair value measurements and the reasons for the transfers. In addition, this ASU requires the Company to present separately information about purchases, sales, issuances, and settlements, (on a gross basis rather than as one net number), in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). ASU 2010-06 clarifies existing disclosures regarding fair value measurement for each class of assets and liabilities and the valuation techniques and inputs used to measure fair value for recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3. This update also includes conforming amendments to the guidance on employers' disclosures about postretirement benefit plan asset (Subtopic 715-20). The changes under ASU 2010-06 were effective for Autodesk's fiscal year beginning February 1, 2010, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for Autodesk's fiscal year beginning February 1, 2011. The adoption of the portion of this ASU that was effective as of February 1, 2010 did not have a material impact on Autodesk's consolidated financial position, results of operations or cash flows. Autodesk believes that the adoption of the remaining portion of the ASU that is effective for Autodesk's fiscal year beginning February 1, 2011 will not have a material impact on its consolidated financial position, results of operations or cash flows.

3. Concentration of Credit Risks and Significant Customers

It is Autodesk's policy that its cash, cash equivalents and marketable securities are held with, and in the custody of, financial institutions with high credit standing. Autodesk's cash and cash equivalents are held by diversified institutions globally. Autodesk's primary commercial banking relationship is with Citibank and its global affiliates (Citibank). In addition, Citicorp USA, Inc., an affiliate of Citibank, is the lead lender and agent in the syndicate of the Company's \$250.0 million U.S. line of credit. It is Autodesk's policy to limit the amounts invested with any one institution by type of security and issuer.

Total sales to the distributors Tech Data Corporation and its global affiliates (Tech Data) accounted for 15% and 16% of Autodesk's consolidated net revenue for the three and six months ended July 31, 2010 and 14% of Autodesk's consolidated net revenue for each of the three and six month periods ended July 31, 2009, respectively. The majority of the net revenue from sales to Tech Data relates to Autodesk's Platform Solutions and Emerging Business segment and comes from outside the U.S. In addition, Tech Data accounted for 17% and 15% of gross accounts receivable at July 31, 2010 and January 31, 2010, respectively.

4. Financial Instruments and Hedging Activities

Financial Instruments

Market values were determined for each individual security in the investment portfolio. The cost and fair value of Autodesk's financial instruments were as follows:

	July 31, 2010		January 31, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Cash and cash equivalents	\$ 850.0	\$ 850.0	\$ 838.7	\$ 838.7
Marketable securities - short-term	237.8	236.6	164.8	161.9
Marketable securities - long-term	181.9	184.1	124.4	125.6
Foreign currency forward and option contracts	3.0	4.7	2.3	3.9

Autodesk classifies its marketable securities as either short-term or long-term based on each instrument's underlying contractual maturity date. Marketable securities with maturities of less than 12 months are classified as short-term and marketable securities with maturities greater than 12 months are classified as long-term. Autodesk may sell certain of its marketable securities prior to their stated maturities for strategic purposes and in anticipation of credit deterioration.

Autodesk has marketable securities that are classified as either available-for-sale securities or trading securities. At July 31, 2010 and January 31, 2010, Autodesk's short-term investment portfolio included \$28.7 million and \$26.3 million, respectively, of trading securities invested in a defined set of mutual funds as directed by the participants in the Company's Deferred Compensation Plan. At July 31, 2010, these securities had net unrealized losses of \$1.3 million and a cost basis of \$30.0 million, and at January 31, 2010, these securities had net unrealized losses of \$3.1 million and a cost basis of \$29.4 million (see Note 8, Deferred Compensation).

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Marketable securities classified as available-for-sale securities include the following securities at July 31, 2010 and January 31, 2010:

	July 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term available-for-sale securities:				
Commercial paper and corporate securities	\$ 84.2	\$ 0.1	\$	\$ 84.3
U.S. government agency securities	45.5			45.5
Certificates of deposit and time deposits	29.5			29.5
U.S. treasury securities	25.0			25.0
Money market funds	10.0			10.0
Sovereign debt	9.0			9.0
Municipal securities	4.3			4.3
Other	0.3			0.3
	\$ 207.8	\$ 0.1	\$	\$ 207.9
Long-term available-for-sale securities:				
Commercial paper and corporate securities	\$ 144.0	\$ 1.7	\$	\$ 145.7
U.S. government agency securities	12.8	0.2		13.0
U.S. treasury securities	6.3	0.1		6.4
Taxable auction-rate securities	7.6			7.6
Municipal securities	7.3	0.1		7.4
Sovereign debt	3.9	0.1		4.0
	\$ 181.9	\$ 2.2	\$	\$ 184.1
January 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term available-for-sale securities:				
Commercial paper and corporate securities	\$ 88.8	\$ 0.2	\$	\$ 89.0
Certificates of deposit and time deposits	24.6			24.6
Money market funds	10.0			10.0
U.S. government agency securities	8.8			8.8
Municipal securities	2.8			2.8
Other	0.4			0.4
	\$ 135.4	\$ 0.2	\$	\$ 135.6
Long-term available-for-sale securities:				
Corporate securities	\$ 94.9	\$ 1.0	\$	\$ 95.9
U.S. government agency securities	9.1	0.1		9.2
Taxable auction-rate securities	7.6			7.6
Municipal securities	7.6	0.1		7.7
U.S. treasury securities	5.2			5.2
	\$ 124.4	\$ 1.2	\$	\$ 125.6

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The sales of available-for-sale securities resulted in no gross gains or losses during the three and six month periods ended July 31, 2010 and 2009. The cost of securities sold is based on the specific identification method.

At July 31, 2010 and January 31, 2010, Autodesk was invested in The Reserve International Liquidity Fund (the International Fund) with an estimated fair value of \$10.0 million. In mid-September of 2008, the International Fund ceased redemptions after net asset values of the funds decreased below \$1 per share. This occurred as a result of the International Fund revaluing their holdings of debt securities issued by Lehman Brothers Holdings, Inc. (Lehman Brothers), which filed for Chapter 11 bankruptcy on September 15, 2008, and the resulting unusually high redemption requests on the International Fund.

A third party court appointed supervisor is overseeing, but not managing, the accounting and payment administration of the International Fund. At this time, the amount and timing of the distribution of our investment in the International Fund is subject to

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litigation, and in the event Autodesk needs to access these funds, the Company will not be able to do so. However, based on currently available information, Autodesk expects to recover substantially all of its current holdings, net of reserves, from the International Fund within the next 12 months. Accordingly, the International Fund is classified in current Marketable securities in the Condensed Consolidated Balance Sheets.

At July 31, 2010 and January 31, 2010, Autodesk owned two auction rate securities with an estimated fair value of \$7.6 million. Autodesk's auction rate securities are variable rate debt instruments that have underlying securities with contractual maturities greater than ten years and interest rates that were structured to reset at auction every 28 days. The securities, which met Autodesk's investment guidelines at the time the investments were made, have failed to settle in auctions since August 2007 and have earned a premium interest rate since that time. While Autodesk expects to recover substantially all of its current holdings, net of reserves, in the auction rate securities, it cannot predict when this will occur or the amount the Company will receive. Due to the lack of liquidity of these investments in an active market, they are included in non-current Marketable securities on the accompanying Condensed Consolidated Balance Sheets. The Company will continue to evaluate its accounting for these investments quarterly.

The following table summarizes the estimated fair value of our available-for-sale marketable securities, classified by the contractual maturity date of the security as of July 31, 2010:

Contractual maturities of types of securities

	July 31, 2010	
	Cost	Fair Value
Due in 1 year	\$ 207.8	\$ 207.9
Due in 1 year through 5 years	174.3	176.5
Due in 5 years through 10 years		
Due after 10 years	7.6	7.6
Total	\$ 389.7	\$ 392.0

As of July 31, 2010 and January 31, 2010, Autodesk did not have any securities in a continuous unrealized loss position for greater than 12 months.

Derivative Financial Instruments

Under its risk management strategy, Autodesk uses derivative instruments to manage its short-term exposures to fluctuations in foreign currency exchange rates, which exist as part of ongoing international business operations. Autodesk's general practice is to use two types of derivative instruments, option collars and forward contracts, to hedge a majority of transaction exposures denominated in euros, Japanese yen, Swiss francs, British pounds and Canadian dollars. These instruments have maturities between 1 to 12 months in the future. Autodesk does not enter into any derivative instruments for trading or speculative purposes.

The bank counterparties in all contracts expose Autodesk to credit-related losses in the event of their nonperformance. However, to mitigate that risk, Autodesk only contracts with counterparties who meet the Company's minimum requirements under its counterparty risk assessment process. Autodesk monitors ratings, credit spreads and potential downgrades on at least a quarterly basis. Based on Autodesk's on-going assessment of counterparty risk, the Company will adjust its exposure to various counterparties. Autodesk does not have any master netting arrangements in place with collateral features.

Cash Flow Hedges

Autodesk utilizes foreign currency contracts to reduce the exchange rate impact on a portion of the net revenue or operating expense of certain anticipated transactions. These contracts, which are designated and documented as cash flow hedges, qualify for special hedge accounting treatment. The effectiveness of the cash flow hedge contracts is assessed quarterly using regression analysis as well as other timing and probability criteria. To receive special hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedge and the hedges are expected to be highly effective in offsetting changes to future cash flows on hedged transactions. The gross gains and losses on these hedges are included in Accumulated other comprehensive income (loss) and are reclassified into earnings at the time the forecasted revenue or expense is recognized. In the event the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, Autodesk reclassifies the gain or loss on the related cash flow hedge from Accumulated other comprehensive income (loss) to Interest

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and other income (expense), net in the Company's Condensed Consolidated Financial Statements at that time.

The notional amount of these contracts was \$266.3 million at July 31, 2010 and \$239.1 million at January 31, 2010. Outstanding contracts are recognized as either assets or liabilities on the balance sheet at fair value. The entire net gain of \$5.3 million remaining in Accumulated other comprehensive income (loss) as of July 31, 2010 is expected to be recognized into earnings within the next 12 months.

Table of Contents**Balance Sheet Hedges**

In addition to the cash flow hedges described above, contracts which are not designated as hedging instruments are used to reduce the exchange rate risk associated primarily with receivables and payables. Forward contracts are marked-to-market at the end of each fiscal quarter, with gains and losses recognized as Interest and other income (expense), net. These derivative instruments do not subject the Company to material balance sheet risk due to exchange rate movements because gains and losses on these derivative instruments are intended to offset the gains or losses resulting from the settlement of the underlying foreign currency denominated receivables and payables. The notional amounts of foreign currency contracts were \$8.9 million at July 31, 2010 and \$19.6 million at January 31, 2010.

The fair value of derivative instruments in Autodesk's Condensed Consolidated Balance Sheets were as follows as of July 31, 2010 and January 31, 2010.

Fair Value of Derivative Instruments in Condensed Consolidated Balance Sheet as of July 31, 2010

	Derivative Assets		Derivative Liabilities	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign currency contracts designated as cash flow hedges	Prepaid expenses and other current assets	\$ 5.6	Other accrued liabilities	\$ 0.9
Derivatives not designated as hedging instruments				
Total derivatives		\$ 5.6		\$ 0.9

Fair Value of Derivative Instruments in Condensed Consolidated Balance Sheet as of January 31, 2010

	Derivative Assets		Derivative Liabilities	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign currency contracts designated as cash flow hedges	Prepaid expenses and other current assets	\$ 4.3	Other accrued liabilities	\$ 0.4
Derivatives not designated as hedging instruments				
Total derivatives		\$ 4.3		\$ 0.4

The effects of derivative instruments on Autodesk's Condensed Consolidated Statements of Operations were as follows for the three and six months ended July 31, 2010 and 2009, respectively (amounts presented include any income tax effects).

Effects of Derivative Instruments on Income and Other Comprehensive Income (OCI) Derivatives Designated as Hedging Instruments

	Amount of Gain (Loss) Recognized in Accumulated OCI on Derivatives (Effective Portion)	Amount and Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount and Location of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
	For the Three Months Ended July 31, 2010		
Foreign exchange contracts	\$ 2.0	\$ 6.1 Net revenue	\$ 0.3 Interest and other income (expense), net

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Operating expenses

Total	\$	2.0	\$ 6.1	\$	0.3
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For the Six Months Ended July 31, 2010	Amount of Gain (Loss) Recognized in Accumulated OCI on Derivatives (Effective Portion)	Amount and Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount and Location of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Foreign exchange contracts	\$ 12.9	\$ 9.5	\$ 0.2
		Net revenue	Interest and other income (expense), net
		0.5	Operating expenses
Total	\$ 12.9	\$ 10.0	\$ 0.2

For the Three Months Ended July 31, 2009	Amount of Gain (Loss) Recognized in Accumulated OCI on Derivatives (Effective Portion)	Amount and Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount and Location of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (1)
Foreign exchange contracts	\$ (7.7)	\$ (2.0)	\$ 0.6
		Net revenue	Interest and other income (expense), net
		0.9	Operating expenses
Total	\$ (7.7)	\$ (1.1)	\$ 0.6

For the Six Months Ended July 31, 2009	Amount of Gain (Loss) Recognized in Accumulated OCI on Derivatives (Effective Portion)	Amount and Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount and Location of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) (1)
Foreign exchange contracts	\$ (3.0)	\$ (1.2)	\$ 1.6
		Net revenue	Interest and other income (expense), net
		0.7	Operating expenses
Total	\$ (3.0)	\$ (0.5)	\$ 1.6

- (1) Includes \$0.4 million and \$1.0 million recognized for the three and six months ended July 31, 2009, respectively, due to previously forecasted transactions that did not occur within the originally specified time period or the additional period of time allowed.

Derivatives Not Designated as Hedging Instruments	Amount and Location of Gain (Loss) Recognized in Income on Derivative	
For the Three Months Ended July 31, 2010		
Foreign exchange contracts	\$ 1.1	Interest and other income (expense), net
For the Six Months Ended July 31, 2010		
Foreign exchange contracts	\$ (0.6)	Interest and other income (expense), net
For the Three Months Ended July 31, 2009		
Foreign exchange contracts	\$ (1.6)	Interest and other income (expense), net

For the Six Months Ended July 31, 2009

Foreign exchange contracts	\$	Interest and other income (expense), net
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5. Fair Value Measurements

Fair value is an exit price, representing the amount that would be received upon the sale of an asset, or the amount paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, Autodesk uses a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs other than the quoted prices in active markets that are observable either directly or indirectly in active markets; and (Level 3) unobservable inputs in which there is little or no market data, which requires Autodesk to develop its own assumptions. Whenever possible, Autodesk uses observable market data, and relies on unobservable inputs only when observable market data is not available, when determining fair value. On a recurring basis, Autodesk measures at fair value certain financial assets and liabilities, which consist of cash equivalents, marketable securities and foreign currency contracts.

The Company's investment held in the International Fund is designated as a Level 3 security. The Company conducted its fair value assessment of the International Fund using Level 1 and Level 3 inputs. Management has reviewed the International Fund's underlying portfolio, which is substantially comprised of cash deposited into the U.S. District Court's Registry at the Federal Reserve Bank of New York. Normally, the Company would classify such investments within Level 1 of the fair value hierarchy. Management

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evaluated the fair value of its unit interest in the International Fund, considering risk of collection, timing and other factors. These assumptions are inherently subjective and involve significant management judgment. As a result, the Company has classified its holdings in the International Fund within Level 3 of the fair value hierarchy. Autodesk's investments in auction rate securities are classified within Level 3 because they are valued using a discounted cash flow model, and some of the inputs to this model are unobservable in the market. There have been no significant changes in the valuation input assumptions since January 31, 2010.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table summarizes Autodesk's investments and financial instruments measured at fair value on a recurring basis as of July 31, 2010:

	Fair Value Measurements at July 31, 2010 Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets				
Cash equivalents ⁽¹⁾ :				
Certificates of deposit and time deposits	\$ 38.0	\$ 264.2	\$	\$ 302.2
Commercial paper		196.5		196.5
Money market funds		63.2		63.2
Marketable securities:				
Commercial paper and corporate securities	195.5	34.5		230.0
U.S. government agency securities	58.5			58.5
U.S. treasury securities	31.4			31.4
Certificates of deposit and time deposits	25.0	4.5		29.5
Mutual funds	28.7			28.7
Sovereign debt		13.0		13.0
Municipal securities	11.7			11.7
Money market funds			10.0	10.0
Taxable auction-rate securities			7.6	7.6
Other	0.3			0.3
Foreign currency derivative contracts ⁽²⁾		5.6		5.6
Total	\$ 389.1	\$ 581.5	\$ 17.6	\$ 988.2
Liabilities				
Foreign currency derivative contracts ⁽³⁾		0.9		0.9
Total	\$	\$ 0.9	\$	\$ 0.9

(1) Included in Cash and cash equivalents in the accompanying Condensed Consolidated Balance Sheets.

(2) Included in Prepaid expenses and other current assets in the accompanying Condensed Consolidated Balance Sheets.

(3) Included in Other accrued liabilities in the accompanying Condensed Consolidated Balance Sheets.

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The following table summarizes Autodesk's investments and financial instruments measured at fair value on a recurring basis as of January 31, 2010:

	Fair Value Measurements at January 31, 2010 Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets				
Cash equivalents ⁽¹⁾ :				
Certificates of deposit and time deposits	\$ 64.0	\$ 208.8	\$	\$ 272.8
Commercial paper		299.5		299.5
Money market funds		49.4		49.4
Municipal securities	0.8			0.8
Marketable securities:				
Commercial paper and corporate securities	115.9	69.0		184.9
Mutual funds	26.3			26.3
Certificates of deposit and time deposits	20.0	4.6		24.6
U.S. government agency securities	18.0			18.0
Municipal securities	10.5			10.5
Money market funds			10.0	10.0
Taxable auction-rate securities			7.6	7.6
U.S. treasury securities and sovereign debt	5.2			5.2
Other	0.4			0.4
Foreign currency derivative contracts ⁽²⁾		4.3		4.3
Total	\$ 261.1	\$ 635.6	\$ 17.6	\$ 914.3
Liabilities				
Foreign currency derivative contracts ⁽³⁾		0.4		0.4
Total	\$	\$ 0.4	\$	\$ 0.4

⁽¹⁾ Included in Cash and cash equivalents in the accompanying Condensed Consolidated Balance Sheets.

⁽²⁾ Included in Prepaid expenses and other current assets in the accompanying Condensed Consolidated Balance Sheets.

⁽³⁾ Included in Other accrued liabilities in the accompanying Condensed Consolidated Balance Sheets.

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Autodesk's cash equivalents and marketable securities are primarily classified within Level 1 or Level 2 of the fair value hierarchy because they are valued primarily using quoted market prices, or alternative pricing sources and models utilizing market observable inputs with reasonable levels of price transparency. A reconciliation of the change in Autodesk's Level 3 items for the six months ended July 31, 2010 was as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Money Market Funds	Auction- Rate Securities	Total
Balance at January 31, 2010	\$ 10.0	\$ 7.6	\$ 17.6
Redemptions			
Balance at July 31, 2010	\$ 10.0	\$ 7.6	\$ 17.6

6. Stock-Based Compensation*Stock Plans*

As of July 31, 2010, Autodesk maintained two active stock plans for the purpose of granting stock awards to employees and to non-employee members of Autodesk's Board of Directors: the 2008 Employee Stock Plan, as amended and restated (2008 Plan), which is available only to employees, and the 2010 Outside Directors' Option Plan, as amended (2010 Plan), which is available only to non-employee directors. Additionally, there are seven expired or terminated plans with options outstanding. The exercise price of all stock options granted under these plans was equal to the fair market value of the stock on the grant date.

The 2008 Plan was originally approved by Autodesk's stockholders in November 2007. On June 10, 2010, Autodesk's stockholders approved amendments to the 2008 Plan, which increased the number of shares reserved for issuance under the plan by 15.5 million shares, in addition to 0.5 million shares that remained available for issuance under the plan prior to the amendment, and extended the term of the plan to June 2013. The 2008 Plan permits the grant of stock options, restricted stock units and restricted stock awards; however, no more than 2.5 million of the shares reserved for issuance under the 2008 Plan may be issued pursuant to awards of restricted stock and restricted stock units. Options and restricted stock units granted under the 2008 Plan vest over periods ranging from immediately upon grant to over a four year period and options expire within four to ten years from the date of grant. At July 31, 2010, 16.0 million shares were available for future issuance under the 2008 Plan. The 2008 Plan will expire in June 2013.

The 2010 Plan, which was approved by the stockholders and replaced the 2000 Directors' Option Plan (2000 Plan) in June 2009, became effective March 16, 2010. The 2010 Plan permits the grant of stock options and restricted stock awards to non-employee members of Autodesk's Board of Directors. Options and awards granted under the 2010 Plan vest over periods ranging from one year to over a four year period and options expire within seven years from the date of grant. The 2010 Plan reserved 2.5 million shares of Autodesk common stock, plus 0.5 million shares that remained available for issuance under the 2000 Plan. At July 31, 2010, 2.8 million shares were available for future issuance. The 2010 Plan will expire in March 2020.

The following sections, Stock Options and Restricted Stock, summarize activity under Autodesk's stock plans.

Table of Contents*Stock Options:*

A summary of stock option activity for the six months ended July 31, 2010 was as follows:

	Number of Shares (in thousands)	Weighted Average Price per Share
Options outstanding at January 31, 2010	29,083	\$ 27.56
Granted	6,400	29.42
Exercised	(1,060)	13.70
Cancelled	(802)	32.19
Options outstanding at July 31, 2010	33,621	\$ 28.25
Options exercisable at July 31, 2010	20,395	\$ 29.86
Options available for grant at July 31, 2010	18,807	

The total pre-tax intrinsic value of options exercised during the three months ended July 31, 2010 and 2009 was \$4.5 million and \$11.2 million, respectively. For the six months ended July 31, 2010 and 2009, the total pre-tax intrinsic value of options exercised was \$16.5 million and \$12.8 million, respectively. The intrinsic value of options exercised is calculated as the difference between the exercise price of the option and the market value of the stock on the date of exercise. The weighted average grant date fair value of stock options granted during the three months ended July 31, 2010 and 2009, calculated as of the stock option grant date using the Black-Scholes-Merton option-pricing model, was \$8.51 and \$8.38 per share, respectively. The weighted average grant date fair value of stock options granted during the six months ended July 31, 2010 and 2009, calculated as of the stock option grant date using the Black-Scholes-Merton option-pricing model, was \$9.15 and \$6.08 per share, respectively. As of July 31, 2010, total compensation costs of \$78.3 million related to non-vested options is expected to be recognized over a weighted average period of 2.3 years.

The following table summarizes information about options outstanding and exercisable at July 31, 2010:

Range of per-share exercise prices:	Options Exercisable				Options Outstanding			
	Number of Shares (in Thousands)	Weighted Average Contractual Life (in Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value ⁽¹⁾ (in Millions)	Number of Shares (in Thousands)	Weighted Average Contractual Life (in Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value ⁽¹⁾ (in Millions)
\$0.61 \$16.53	4,723		\$ 11.12		8,732		\$ 12.78	
\$17.37 \$29.49	3,507		23.84		9,218		26.77	
\$29.50 \$35.00	3,845		32.14		6,757		31.81	
\$35.30 \$45.29	7,694		41.46		8,121		41.61	
\$47.24 \$49.80	626		48.41		793		48.59	
	20,395	2.9	\$ 29.86	\$ 107.0	33,621	4.0	\$ 28.25	\$ 172.0

⁽¹⁾ Represents the total pre-tax intrinsic value, based on Autodesk's closing stock price of \$29.54 per share as of July 31, 2010, which would have been received by the option holders had all option holders exercised their options as of that date. These options will expire if not exercised prior to specific dates ranging through June 2017.

Table of Contents*Restricted Stock:*

A summary of restricted stock award and restricted stock unit activity for the six months ended July 31, 2010 was as follows:

	Unreleased Restricted Stock (in thousands)
Unreleased restricted stock at January 31, 2010	855
Awarded	67
Released	(30)
Forfeited	(4)
Unreleased restricted stock at July 31, 2010	888

During the six months ended July 31, 2010, Autodesk granted approximately 44,000 restricted stock units under the 2008 Plan. The restricted stock units vest over periods ranging from immediately upon grant to the third anniversary of the date of grant. Restricted stock units are not considered outstanding stock at the time of grant, as the holders of these units are not entitled to any of the rights of a stockholder, including voting rights. The fair value of the restricted stock is expensed ratably over the vesting period. Autodesk recorded share-based compensation expense related to restricted stock units of \$2.2 million and \$3.9 million during the three and six months ended July 31, 2010, respectively. Autodesk recorded share-based compensation expense related to restricted stock units of \$0.3 million and \$0.5 million during the three and six months ended July 31, 2009, respectively. As of July 31, 2010, total compensation cost related to non-vested awards not yet recognized of \$10.1 million is expected to be recognized over a weighted average period of 1.4 years. At July 31, 2010, the number of units granted but unreleased was approximately 865,000.

During the six months ended July 31, 2010, Autodesk granted approximately 23,000 restricted stock awards under the 2010 Plan. Restricted stock awards granted under the 2010 Plan vest on the first anniversary of the date of grant. Restricted stock awards are considered outstanding at the time of grant, as the stock award holders are entitled to many of the rights of a stockholder, including voting rights. The fair value of the restricted stock is expensed ratably over the vesting period. Autodesk recorded share-based compensation expense related to restricted stock awards of \$0.3 million and \$0.4 million during the three and six months ended July 31, 2010, respectively, and \$0.3 million and \$0.4 million during the three and six months ended July 31, 2009, respectively. As of July 31, 2010, total compensation cost related to non-vested awards not yet recognized of \$0.5 million is expected to be recognized over a weighted average period of 0.9 years. At July 31, 2010, the number of awards granted but unreleased was approximately 23,000.

1998 Employee Qualified Stock Purchase Plan (ESP Plan)

Under Autodesk's ESP Plan, which was approved by stockholders in 1998, eligible employees may purchase shares of Autodesk's common stock at their discretion using up to 15% of their compensation subject to certain limitations, at not less than 85% of fair market value as defined in the ESP Plan (ESP Plan fair market value). At July 31, 2010, a total of 29.3 million shares were available for future issuance. This amount automatically increases on the first trading day of each fiscal year by an amount equal to the lesser of 10 million shares or 2.0% of the total of (1) outstanding shares plus (2) any shares repurchased by Autodesk during the prior fiscal year. Under the ESP Plan, the Company issues shares on the first trading day following March 31 and September 30 of each fiscal year. The ESP Plan will expire in January 2018.

Autodesk issued 1.7 million shares under the ESP Plan during each of the six month periods ended July 31, 2010 and 2009, at average prices of \$14.65 and \$14.29 per share, respectively in each case. The weighted average grant date fair values of awards granted under the ESP Plan during the six months ended July 31, 2010 and 2009, calculated as of the award grant date using the Black-Scholes-Merton option-pricing model, were \$6.90 and \$7.17 per share, respectively.

At July 31, 2010, a total of 48.1 million shares of Autodesk's common stock have been reserved for future issuance under existing stock option and stock purchase plans.

Table of Contents*Stock-based Compensation Expense*

The following table summarizes stock-based compensation expense for the three and six months ended July 31, 2010 and 2009, respectively, as follows:

	Three Months Ended July 31, 2010	Three Months Ended July 31, 2009
Cost of license and other revenue	\$ 0.7	\$ 0.7
Marketing and sales	9.2	9.5
Research and development	7.2	7.1
General and administrative	3.9	4.0
Stock-based compensation expense related to stock awards and ESP Plan purchases	21.0	21.3
Tax benefit	(5.3)	(4.5)
Stock-based compensation expense related to stock awards and ESP Plan purchases, net of tax	\$ 15.7	\$ 16.8

**Six Months
Ended July
31**