AUTODESK INC
Form 10-Q
June 03, 2009
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2009

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** | **94-2819853** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **111 McInnis Parkway San Rafael, California** | **94903** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**(415) 507-5000**

**(Registrant s telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 ( 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 x 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 x | 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 x

As of May 27, 2009, there were 228,408,965 shares of the registrant s Common Stock outstanding.

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**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 April 30, 2009 | Three months Ended April 30, 2008 |
|---|---|---|
| Net revenue: | | |
| License and other | $ 243.6 | $ 432.2 |
| Maintenance | 182.2 | 166.6 |
| Total net revenue | 425.8 | 598.8 |
| Costs of revenue: | | |
| Cost of license and other revenue | 49.5 | 56.0 |
| Cost of maintenance revenue | 2.8 | 2.0 |
| Total cost of revenue | 52.3 | 58.0 |
| Gross profit | 373.5 | 540.8 |
| Operating expenses: | | |
| Marketing and sales | 185.8 | 225.5 |
| Research and development | 124.1 | 145.6 |
| General and administrative | 45.5 | 49.8 |
| Impairment of goodwill | 21.0 | |
| Restructuring charges | 16.5 | |
| Total operating expenses | 392.9 | 420.9 |
| Income (loss) from operations | (19.4) | 119.9 |
| Interest and other income (expense), net | | 6.9 |
| Income (loss) before income taxes | (19.4) | 126.8 |
| Provision for income taxes | (12.7) | (32.2) |
| Net income (loss) | $ (32.1) | $ 94.6 |
| Basic net income (loss) per share | $ (0.14) | $ 0.42 |
| Diluted net income (loss) per share | $ (0.14) | $ 0.41 |
| Shares used in computing basic net income (loss) per share | 227.1 | 226.2 |

| | | |
|---|---|---|
| Shares used in computing diluted net income (loss) per share | 227.1 | 232.6 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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**AUTODESK, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

(In millions)

| | April 30, 2009 (Unaudited) | January 31, 2009 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 880.5 | $ 917.6 |
| Marketable securities | 78.4 | 63.5 |
| Accounts receivable, net | 228.6 | 316.5 |
| Deferred income taxes | 47.0 | 31.1 |
| Prepaid expenses and other current assets | 67.7 | 59.3 |
| Total current assets | 1,302.2 | 1,388.0 |
| Marketable securities | 7.6 | 7.6 |
| Computer equipment, software, furniture and leasehold improvements, net | 120.7 | 120.6 |
| Purchased technologies, net | 105.0 | 113.3 |
| Goodwill | 520.7 | 542.5 |
| Long term deferred income taxes, net | 88.3 | 125.7 |
| Other assets | 125.0 | 123.0 |
| | $ 2,269.5 | $ 2,420.7 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 65.0 | $ 62.4 |
| Accrued compensation | 83.9 | 124.3 |
| Accrued income taxes | 19.1 | 16.7 |
| Deferred revenue | 453.1 | 438.8 |
| Borrowings under line of credit | 2.1 | 52.1 |
| Other accrued liabilities | 58.6 | 105.8 |
| Total current liabilities | 681.8 | 800.1 |
| Deferred revenue | 80.9 | 113.3 |
| Long term income taxes payable | 120.5 | 116.9 |
| Long term deferred income taxes | | 22.7 |
| Other liabilities | 57.8 | 57.0 |
| Commitments and contingencies | | |
| Stockholders equity: | | |
| Preferred stock | | |
| Common stock and additional paid-in capital | 1,128.8 | 1,080.4 |
| Accumulated other comprehensive income (loss) | (9.7) | (11.2) |
| Retained earnings | 209.4 | 241.5 |
| Total stockholders equity | 1,328.5 | 1,310.7 |
| | $ 2,269.5 | $ 2,420.7 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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**AUTODESK, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In millions)

(Unaudited)

| | Three months Ended April 30, 2009 | 2008 |
|---|---|---|
| Operating Activities | | |
| Net income (loss) | $ (32.1) | $ 94.6 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 27.0 | 16.9 |
| Stock-based compensation expense | 23.0 | 25.2 |
| Impairment of goodwill | 21.0 | |
| Loss on disposition of assets | 1.1 | |
| Restructuring related charges, net | 16.5 | |
| Changes in operating assets and liabilities, net of business combinations | (29.3) | 48.6 |
| Net cash provided by operating activities | 27.2 | 185.3 |
| Investing Activities | | |
| Purchases of marketable securities | (26.6) | (2.1) |
| Sales of marketable securities | 11.7 | 0.8 |
| Purchase of equity investment | (10.0) | |
| Capitalization of software development costs | | (1.0) |
| Capital expenditures | (13.6) | (13.4) |
| Business combinations, net of cash acquired | | 0.2 |
| Net cash used in investing activities | (38.5) | (15.5) |
| Financing Activities | | |
| Draws on line of credit | 2.2 | 40.0 |
| Repayments of line of credit | (52.2) | |
| Proceeds from issuance of common stock, net of issuance costs | 25.4 | 35.3 |
| Repurchases of common stock | | (256.6) |
| Net cash used in financing activities | (24.6) | (181.3) |
| Effect of exchange rate changes on cash and cash equivalents | (1.2) | 2.7 |
| Net decrease in cash and cash equivalents | (37.1) | (8.8) |
| Cash and cash equivalents at beginning of fiscal year | 917.6 | 917.9 |
| Cash and cash equivalents at end of period | $ 880.5 | $ 909.1 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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**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 April 30, 2009, and for the three months ended April 30, 2009, 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 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. These estimates are based on information available as of the date of the unaudited Condensed Consolidated Financial Statements. Actual results could differ from those estimates. In addition, the results of operations for the three months ended April 30, 2009 are not necessarily indicative of the results for the entire fiscal year ending January 31, 2010, 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, 2009 (the 2009 Form 10-K ) filed on March 20, 2009.

*Reclassifications*

Certain reclassifications to segment revenue and gross profit have been made to prior year amounts to conform to the current presentation. See Note 17, Segments for additional information regarding these reclassifications.

**2. *Recently Issued Accounting Standards***

In April 2009, the Financial Accounting Standards Board ( FASB ) issued Staff Position FSP No. 141R-1 Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies ( FSP 141R-1 ). FSP 141R-1 amends the provisions in Statement of Financial Accounting Standards No. 141 (revised 2007) Business Combinations ( SFAS 141R ) for the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in business combinations. FSP 141R-1 eliminates the distinction between contractual and non-contractual contingencies, including the initial recognition and measurement criteria in SFAS 141R and instead carries forward most of the provisions in SFAS 141 for acquired contingencies. FSP 141R-1 is effective for Autodesk for contingent assets and contingent liabilities acquired in business combinations for which the acquisition date is on or after February 1, 2009. Autodesk expects that FSP 141R-1 will have an impact on its consolidated financial statements, but the nature and magnitude of the specific effects will depend upon the nature, term and size of the acquired contingencies.

In April 2009, the FASB issued three related Staff Positions: (i) FSP 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions That Are Not Orderly ( FSP 157-4 ), (ii) FSP Statement of Financial Accounting Standard (SFAS) 115-2 and SFAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, ( FSP SFAS 115-2 and SFAS 124-2 ), and (iii) FSP SFAS 107-1 and Accounting Principles Board (APB) 28-1, Interim Disclosures about Fair Value of Financial Instruments, ( FSP SFAS 107 and APB 28-1 ), each of which will be effective for Autodesk for interim and annual periods beginning with its second quarter of fiscal 2010. FSP 157-4 provides guidance on how to determine the fair value of assets and liabilities under SFAS 157 Fair Value

Measurements, in the current economic environment and reemphasizes that the objective of a fair value measurement remains the determination of an exit price. If Autodesk were to conclude that there has been a significant decrease in the volume and level of activity of the asset or liability in relation to normal market activities, quoted market values may not be representative of fair value and the Company may conclude that a change in valuation technique or the use of multiple valuation techniques may be appropriate. FSP SFAS 115-2 and SFAS 124-2 modify the requirements for recognizing other-than-temporarily impaired debt securities and revise the existing impairment model for such securities by modifying the current intent and ability indicator in determining whether a debt security is other-than-temporarily impaired. FSP SFAS 107 and APB 28-1 enhance the disclosure of instruments under the scope of SFAS 157 for both interim and annual periods. Autodesk does not believe the adoption of these Staff Positions will have a material effect 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 primary commercial banking relationship is with Citibank and its global affiliates ( Citibank ). Autodesk s cash and cash equivalents are held by diversified institutions globally. 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. Citibank, like many financial institutions, has obtained government assistance. It is Autodesk s policy to limit the amounts invested with any one institution by type of security and issuer. See further discussion in Note 4, Financial Instruments below.

Total sales to the distributors Tech Data Corporation and its global affiliates ( Tech Data ) accounted for 14% and 17% of Autodesk s consolidated net revenue for the first quarters of fiscal 2010 and 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 19% and 12% of gross accounts receivable at April 30, 2009 and January 31, 2009, respectively.

**4.** ***Financial Instruments***

*Derivative Financial Instruments*

On February 1, 2009, Autodesk adopted FASB Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement 133, ( SFAS 161 ). The adoption of SFAS 161 had no financial impact on Autodesk s consolidated financial statements and only required additional financial statement disclosures. Autodesk has applied the requirements of SFAS 161 on a prospective basis. Accordingly, disclosures related to interim periods prior to the date of adoption have not been presented.

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 forward and option collar contracts to hedge a majority of transaction exposures denominated in euros, Japanese yen, Swiss francs, British pounds and Canadian dollars. These foreign currency instruments have maturities between one to 12 months in the future. Autodesk does not enter into any foreign exchange derivative instruments for trading or speculative purposes.

**Cash Flow Hedges**

Autodesk utilizes purchased foreign currency option collar contracts and forwards to reduce the exchange rate impact on a portion of the net revenue or operating expense of certain anticipated transactions. These option collar and forward contracts, which are designated and documented as cash flow hedges, qualify for special hedge accounting treatment under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ( SFAS 133 ). The effectiveness of the cash flow hedge

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contracts is assessed quarterly using regression as well as other timing and probability criteria required by SFAS 133. For cash flow hedges designated for the quarter ending April 30, 2009 time value was excluded from the assessment of hedge effectiveness. Changes in the excluded time value component of hedges designated for the quarter ended April 30, 2009 were reported in Interest and other income (expense), net in the Company s Condensed Consolidated Statements of Operations. For cash flow hedges designated for periods after April 30, 2009 time value is included in the assessment of hedge effectiveness and changes in the time value of these derivatives are recorded in Accumulated other comprehensive income (loss) in the Company s Condensed Consolidated Balance Sheets. 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 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 and other income (expense), net in the Company s Condensed Consolidated Financial Statements at that time.

The notional amount of these contracts was $175.0 million at April 30, 2009 and $276.7 million at January 31, 2009. In accordance with SFAS 133, outstanding contracts are recognized as either assets or liabilities on the balance sheet at fair value.

**Balance Sheet Hedges**

In addition to the cash flow hedges described above, forward contracts which are not designated as hedging instruments under SFAS 133, 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 reporting period, with gains and losses recognized as other income or expense 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 $68.3 million at April 30, 2009 and $28.3 million at January 31, 2009.

The bank counterparties in all contracts expose us 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.

The effects of derivative instruments on Autodesk s condensed consolidated financial statements were as follows as of April 30, 2009 and for the three months then ended (amounts presented exclude any income tax effects):

**Fair Value of Derivative Instruments in Condensed Consolidated Balance Sheet as of April 30, 2009**

| | Derivative Assets | | Derivative Liabilities | |
|---|---|---|---|---|
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Foreign currency contracts designated as cash flow hedges under SFAS 133 | Prepaid expenses and other current assets | $ 3.4 | Other accrued liabilities | $ 0.1 |
| Derivatives non-designated as hedging instruments under SFAS 133 | | | | |
| Total derivatives | | $ 3.4 | | $ 0.1 |

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**Effects of Derivative Instruments on Income and Other Comprehensive Income (OCI) Derivatives Designated as Hedging Instruments Under SFAS 133 for the Three Months Ended April 30, 2009**

| | Amount of Gain (Loss) Recognized in Accumulated OCI on Derivatives (Effective Portion)[1] | 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)[2] | |
|---|---|---|---|---|---|
| Foreign exchange contracts | $ 4.7 | $ 0.8 | Net revenue | $ 1.0 | Interest and other income (expense), net |
| | | (0.2) | Operating expenses | | |
| Total | $ 4.7 | $ 0.6 | | $ 1.0 | |

(1) The entire remaining net gain as of April 30, 2009 is expected to be recognized into earnings within the next 12 months.

(2) Includes $0.6 million recognized due to previously forecasted transactions that are no longer expected to occur within the originally specified time period or the additional period of time allowed under SFAS 133.

| | Amount and Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | |
|---|---|---|
| **Derivatives Not Designated as Hedging Instruments Under SFAS 133:** | | |
| Foreign exchange contracts | $ 1.6 | Interest and other income (expense), net |

*Marketable Securities*

At April 30, 2009, Autodesk s short-term investment portfolio consisted of term deposits, money market funds and mutual funds with an estimated fair value of $78.4 million and a cost basis of $83.0 million. Of this amount, $22.8 million was invested in a defined set of mutual funds as directed by the participants in the Company s Deferred Compensation Plan (see Note 8, Deferred Compensation ), and $3.7 million was invested in bank term deposits with original maturities greater than 90 days and less than one year, and U.S. Government Agencies of $20.0 million. The remaining $31.9 million was invested in two money market funds: $30.9 million was invested in The Reserve International Liquidity Fund (the International Fund ) and $1.0 million was invested in The Reserve Primary Fund (the Primary Fund, and together with the International Fund, Reserve Funds ). In mid-September of 2008, the Reserve Funds ceased redemptions after net asset values of the funds decreased below $1 per share. This occurred as a result of the Reserve Funds 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 Reserve Funds. While Autodesk expects to recover substantially all of its current holdings, net of reserves, in the Reserve Funds, it cannot predict when this will occur or the amount the Company will receive.

The timing of future redemptions from the Reserve Funds currently is undetermined. The SEC is overseeing the administration, accounting and payout of the U.S.-based Primary Fund, and a third party court appointed supervisor is overseeing, but not managing, the accounting and payment administration of the non U.S.-based International Fund. At this time, these investments are not currently liquid, 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 believes that any distributions from the Reserve Funds will occur within the next 12 months. Accordingly, the Reserve Funds are classified in current Marketable Securities on the Company s Condensed Consolidated Balance Sheets.

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At April 30, 2009, Autodesk owned two auction rate securities with an estimated fair value of $7.6 million and a cost basis of $9.0 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. Due to the lack of liquidity of these investments, 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.

*Fair Value Measurements*

Statement of Financial Accounting Standards No. 157 Fair Value Measurements ( SFAS 157 ) clarifies that 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, SFAS 157 establishes 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 require Autodesk to develop its own assumptions. SFAS 157 requires Autodesk to maximize its use of observable market data, and to minimize its use of unobservable inputs 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 investments held in the Reserve Funds are designated as Level 3 securities. The Company conducted its fair value assessment of the Reserve Funds using Level 2 and Level 3 inputs. Management has reviewed the Reserve Funds underlying securities portfolio which is substantially comprised of term deposits, money market funds, U.S. treasury bills and commercial paper. These securities are issued by highly-rated institutions. Normally, the Company would classify such investments within Level 2 of the fair value hierarchy. Management evaluated the fair value of its unit interest in the Reserve Funds, 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 Reserve Funds 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 pricing model, and some of the inputs to this model are unobservable in the market.

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The following table summarizes the valuation of Autodesk s investments and financial instruments, which were determined by fair value hierarchy at April 30, 2009:

| | Fair Value Measurements at April 30, 2009 Using | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Assets | | | | |
| Cash equivalents[1]: | | | | |
| Term deposits | $ | $ 177.7 | $ | $ 177.7 |
| Money market funds | | 3.0 | | 3.0 |
| U.S. Treasury bills | 110.0 | | | 110.0 |
| Commercial paper | | 377.2 | | 377.2 |
| Marketable securities: | | | | |
| Money market funds | | | 31.9 | 31.9 |
| Mutual funds | 22.8 | | | 22.8 |
| Term deposits | | 3.7 | | 3.7 |
| U.S. government agencies | | 20.0 | | 20.0 |
| Taxable auction-rate securities | | | 7.6 | 7.6 |
| Foreign currency derivative contracts[2] | | 3.4 | | 3.4 |
| Total | $ 132.8 | $ 585.0 | $ 39.5 | $ 757.3 |
| Liabilities | | | | |
| Foreign currency derivative contracts[3] | | 0.1 | | 0.1 |
| Total | $ | $ 0.1 | $ | $ 0.1 |

(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 the valuation of Autodesk s investments and financial instruments, which were determined by fair value hierarchy at January 31, 2009:

| | Fair Value Measurements at January 31, 2009 Using | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Assets | | | | |
| Cash equivalents[1]: | | | | |
| Term deposits | $ | $ 340.0 | $ | $ 340.0 |
| Money market funds | | 63.5 | | 63.5 |
| U.S. Treasury bills | 25.0 | | | 25.0 |
| U.S. government agencies | 55.0 | | | 55.0 |
| Commercial paper | | 206.1 | | 206.1 |
| Marketable securities: | | | | |
| Money market funds | | | 33.3 | 33.3 |
| Mutual funds | 19.9 | | | 19.9 |
| Term deposits | | 10.3 | | 10.3 |
| Taxable auction-rate securities | | | 7.6 | 7.6 |
| Foreign currency derivative contracts[2] | | 2.1 | | 2.1 |
| Total | $ 99.9 | $ 622.0 | $ 40.9 | $ 762.8 |

(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.

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 three months ended April 30, 2009 was as follows:

| | Fair Value Measurments Using Significant Unobservable Inputs (Level 3) | | |
|---|---|---|---|
| | Money Market Funds | Taxable Auction-Rate Securities | Total |
| Balance at January 31, 2009 | $ 33.3 | $ 7.6 | $ 40.9 |
| Transfers in to (out of) Level 3 | (1.4) | | (1.4) |
| Balance at April 30, 2009 | $ 31.9 | $ 7.6 | $ 39.5 |

**5. *Stock-Based Compensation***

*Stock Plans*

As of April 30, 2009, 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 ( 2008 Plan ), which is available only to employees, and the 2000 Directors Option Plan, as amended ( 2000 Plan ), which is available only to non-employee directors. Additionally, there are six expired or terminated plans with options outstanding, including the 2006 Employee Stock Plan ( 2006 Plan ), which was replaced by the 2008 Plan in March 2008.

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The 2008 Plan was approved by Autodesk s stockholders in November 2007. Under this plan, 16.5 million shares of Autodesk common stock, in addition to 0.5 million shares that remained available for issuance under the 2006 Plan upon its expiration, were reserved for issuance. The 2008 Plan permits the grant of stock options, restricted stock awards and restricted stock units; 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. At April 30, 2009, 7.2 million shares were available for future issuance under the 2008 Plan. The 2008 Plan will expire in March 2011.

The 2000 Plan, which was originally approved by the stockholders in June 2000, allows for an automatic annual grant of options to non-employee members of Autodesk s Board of Directors. At April 30, 2009, 0.8 million shares were available for future issuance. The 2000 Plan will expire in March 2010.

Autodesk s Board of Directors adopted the 2010 Outside Directors Stock Plan on March 12, 2009, and it is subject to the approval of the Company s shareholders at the Annual Shareholders meeting on June 11, 2009.

Options granted under the 2008 Plan and the 2000 Plan vest over periods ranging from one to four years and expire within four to seven years from the date of grant. 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 following section, Stock Options, summarizes activity under Autodesk s stock option plans. While there was no restricted stock awarded under Autodesk s stock plans during the first quarter of fiscal 2010, there were 77,316 restricted stock units awarded during the first quarter of fiscal 2010.

*Stock Options:*

A summary of stock option activity for the first quarter of fiscal 2010 was as follows:

| | **Number of Shares (in thousands)** | **Weighted average price per share** |
|---|---|---|
| Options outstanding at January 31, 2009 | 26,818 | $ 30.13 |
| Granted | 6,357 | $ 14.70 |
| Exercised | (188) | $ 8.50 |
| Forfeited | (671) | $ 36.53 |
| Expired | (119) | $ 35.18 |
| Options outstanding at April 30, 2009 | 32,197 | $ 27.06 |
| Options exercisable at April 30, 2009 | 17,652 | $ 26.45 |
| Options available for grant at April 30, 2009 | 8,006 | |

The total pre-tax intrinsic value of options exercised during the first quarter of fiscal 2010 and 2009 was $1.6 million and $12.0 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 first quarter of fiscal 2010 and fiscal 2009, calculated as of the stock option grant date using the Black-Scholes-Merton option-pricing model, was $6.00 and $9.90 per share, respectively. As of April 30, 2009, total compensation cost of $89.9 million related to non-vested options is expected to be recognized over a weighted average period of 2.4 years.

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The following table summarizes information about options outstanding and exercisable at April 30, 2009:

| | | 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) |
| Range of per-share exercise prices: | | | | | | | | |
| $0.20 $13.40 | 3,651 | | $ 8.43 | | 6,487 | | $ 10.12 | |
| $13.80 $17.50 | 2,746 | | $ 15.36 | | 6,443 | | $ 16.07 | |
| $18.18 $31.68 | 4,563 | | $ 28.08 | | 6,450 | | $ 28.84 | |
| $32.33 $38.10 | 4,082 | | $ 36.35 | | 6,635 | | $ 35.75 | |
| $39.70 $49.80 | 2,610 | | $ 44.97 | | 6,183 | | $ 45.09 | |
| | 17,652 | 4.4 | $ 26.44 | $ 55.0 | 32,198 | 4.4 | $ 27.06 | $ 89.1 |

(1) Represents the total pre-tax intrinsic value, based on Autodesk s closing stock price of $19.94 per share as of April 30, 2009, 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 April 2016.

*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 April 30, 2009, a total of 32.3 million shares were available for future issuance. This amount is automatically increased 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 expires during fiscal 2018.

Autodesk issued 1.7 million and 1.1 million shares under the ESP Plan during the first quarter of fiscal 2010 and 2009, at an average price of $14.29 and $26.76 per share, respectively. The weighted average grant date fair value of awards granted under the ESP Plan during the first quarter of fiscal 2010 and 2009, calculated as of the award grant date using the Black-Scholes-Merton option-pricing model, was $7.17 and $10.39 per share, respectively.

At April 30, 2009, a total of 68.0 million shares of Autodesk s common stock have been reserved for future issuance under existing stock option and stock purchase plans.

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*Stock-based Compensation Expense*

Autodesk measures all stock-based payments to employees and directors, including grants of employee stock options and employee stock purchases related to the ESP Plan, using a fair-value based method and records the expense in Autodesk s Condensed Consolidated Statements of Operations in accordance with Statement of Financial Accounting Standards No. 123R Share-Based Payment ( SFAS 123R ). The estimated fair value of stock-based awards is amortized to expense on a straight-line basis over the awards vesting period. The following table summarizes stock-based compensation expense related to employee stock options and employee stock purchases for the first quarter of fiscal 2009 and 2008, respectively, as follows:

| | Three months ended April 30, 2009 | Three months ended April 30, 2008 |
|---|---|---|
| Cost of license and other revenue | $ 0.6 | $ 1.0 |
| Marketing and sales | 9.5 | 10.5 |
| Research and development | 7.1 | 8.4 |
| General and administrative | 5.9 | 5.3 |
| Stock-based compensation expense | 23.1 | 25.2 |
| Tax benefit | (5.5) | (5.3) |
| Stock-based compensation expense | $ 17.6 | $ 19.9 |

Autodesk uses the Black-Scholes-Merton option-pricing model to estimate the fair value of stock-based awards and the fair value of awards under the ESP Plan based on the following assumptions:

| | Three months ended April 30, 2009 | | Three months ended April 30, 2008 | |
|---|---|---|---|---|
| | Stock Option Plans | ESP Plan | Stock Option Plans | ESP Plan |
| Range of expected volatilities | 0.53 -0.55 | 0.58 -0.73 | 0.37 | 0.36 -0.41 |
| Range of expected lives (in years) | 2.7 - 4.0 | 0.50 - 2.0 | 2.7 -4.0 | 0.5 - 2.0 |
| Expected dividends | 0% | 0% | 0% | 0% |
| Range of risk-free interest rates | 1.2 -1.7% | 0.42 -0.86% | 1.82 -2.24% | 1.53 -1.75% |
| Expected forfeitures | 13.5% | 13.5% | 13.6% | 13.6% |

Autodesk estimates expected volatility for stock-based awards granted under the Company s stock plans and ESP Plan awards based on two measures. The first is a measure of historical volatility in the trading market for the Company s common stock, and the second is the implied volatility of traded forward call options to purchase shares of the Company s common stock.

Autodesk estimates the expected life of stock-based awards granted under the Company s stock plans using both exercise behavior and post-vesting termination behavior, as well as consideration of outstanding options.

Autodesk does not currently pay, and does not anticipate paying, any cash dividends in the foreseeable future. Consequently, an expected dividend yield of zero is used in the Black-Scholes-Merton option valuation model.

The risk-free interest rate used in the Black-Scholes-Merton option valuation model for stock-based awards granted under the Company s stock plans and ESP Plan awards is the historical yield on U.S. Treasury securities with equivalent remaining lives.

In addition to the assumptions used in the Black-Scholes-Merton pricing model, SFAS 123R requires that the Company recognize expense for the stock-based awards that are ultimately expected to vest. Therefore, Autodesk is required to develop an estimate of the number of awards expected to cancel prior to vesting

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( forfeiture rate ). The forfeiture rate is estimated based on historical pre-vest cancellation experience, and is applied to all stock-based awards. The Company estimates forfeitures at the time of grant and revises those estimates in subsequent periods if actual forfeitures differ from those estimates.

**6. *Income Taxes***

Autodesk s effective tax rate was negative 65% and 25% during the first quarter of fiscal 2010 and 2009, respectively. Autodesk s effective tax rate during the first quarter of fiscal 2010 differs from the effective tax rate during the first quarter of fiscal 2009 primarily due to a $20.9 million discrete non-cash tax charge from recording a valuation allowance against certain California deferred tax assets partially offset by a discrete tax benefit of $7.7 million associated with the impairment of goodwill that were recorded during the first quarter of fiscal 2010. Excluding the impact of discrete tax items, the effective tax rate of negative 65% for the first quarter of fiscal 2010 is lower than the Federal statutory tax rate of 35% primarily due to foreign income taxes at lower rates and Federal and state research tax credits, partially offset by the impact of SFAS 123R.

During the first quarter of fiscal 2010, the State of California enacted significant California tax law changes. As a result of the enacted legislation, the Company expects that in fiscal years 2012 and beyond the Company s income subject to tax in California will be less than under prior tax law and accordingly its California deferred tax assets are less likely to be realized. The Company recorded a net discrete tax charge of $20.9 million related to the re-measurement of the Company s California deferred tax assets to account for this change in tax law, as well as an increase in the valuation allowance for the Company s California deferred tax assets that existed as of January 31, 2009. The Company will continue to assess its valuation allowance on its California deferred tax assets in future periods.

At April 30, 2009, Autodesk had net deferred tax assets of $134.9 million. The Company believes that it will generate sufficient future taxable income in appropriate tax jurisdictions to realize these assets.

**7. *Restructuring Reserve***

In the fourth quarter of fiscal 2009, Autodesk initiated a restructuring program in order to reduce operating costs. This program has reduced the number of employees by approximately 700 positions globally and will result in the consolidation of up to 27 leased facilities. In connection with this restructuring, Autodesk recorded charges totaling $16.5 million in the first quarter of fiscal 2010 related to the consolidation of fifteen leased facilities globally, and one-time termination benefits for the elimination of approximately 80 positions. These restructuring charges have been recorded in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. As of April 30, 2009, of the $55.6 million in total accrued restructuring charges, $35.3 million has been paid. The remaining accrual associated with the termination benefits is expected to be substantially paid during the second quarter of fiscal 2010. Autodesk expects to pay the facility related liabilities through fiscal 2018.

A summary of the restructuring and other costs by segment recognized during the three months ended April 30, 2009 are as follows:

| | Employee Severance and Benefits | Facilities | Total |
|---|---|---|---|
| Amounts incurred in the first quarter of fiscal 2010: | | | |
| Platform Solutions and Emerging Business | $ 0.3 | $ | $ 0.3 |
| Manufacturing | 0.9 | | 0.9 |
| Architecture, Engineering and Construction | | | |
| Media and Entertainment | 0.8 | | 0.8 |
| Unallocated[(1)] | 3.3 | 11.2 | 14.5 |
| Cummulative amount incurred as of April 30, 2009 | $ 5.3 | $ 11.2 | $ 16.5 |