

AUTODESK INC
Form 10-Q
August 31, 2007
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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, 2007

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)

94903
(Zip Code)

Telephone Number (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 No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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, 2007, there were approximately 230.0 million 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 INCOME**

(In millions, except per share data)

(Unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2007	2006	2007	2006
Net revenues:				
License and other	\$ 393.6	\$ 345.5	\$ 776.7	\$ 694.9
Maintenance	132.3	104.1	257.7	190.7
Total net revenues	525.9	449.6	1,034.4	885.6
Costs and expenses:				
Cost of license and other revenues	49.6	53.6	100.1	101.1
Cost of maintenance revenues	2.3	2.2	4.4	4.6
Marketing and sales	198.8	167.5	391.3	337.9
Research and development	114.9	98.0	229.6	197.4
General and administrative	45.8	26.2	93.1	83.2
Total costs and expenses	411.4	347.5	818.5	724.2
Income from operations	114.5	102.1	215.9	161.4
Interest and other income, net	3.4	2.8	13.2	6.3
Income before income taxes	117.9	104.9	229.1	167.7
Provision for income taxes	(26.3)	(18.1)	(54.2)	(32.4)
Net income	\$ 91.6	\$ 86.8	\$ 174.9	\$ 135.3
Basic net income per share	\$ 0.40	\$ 0.38	\$ 0.76	\$ 0.59
Diluted net income per share	\$ 0.38	\$ 0.36	\$ 0.72	\$ 0.55
Shares used in computing basic net income per share	230.3	230.5	230.8	230.4
Shares used in computing diluted net income per share	243.0	243.1	243.7	244.1

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(In millions)

	July 31, 2007 (Unaudited)	January 31, 2007 (Audited) (1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 774.9	\$ 665.9
Marketable securities	52.0	112.0
Accounts receivable, net	278.4	301.3
Deferred income taxes	112.6	78.1
Prepaid expenses and other current assets	47.0	32.4
Total current assets	1,264.9	1,189.7
Computer equipment, software, furniture and leasehold improvements, net	66.5	65.6
Purchased technologies, net	51.2	51.3
Goodwill	365.7	355.3
Deferred income taxes, net	51.8	59.8
Other assets	78.0	75.8
	\$ 1,878.1	\$ 1,797.5
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 77.1	\$ 61.0
Accrued compensation	102.5	120.7
Accrued income taxes	14.6	23.6
Deferred revenues	335.5	311.4
Other accrued liabilities	67.8	57.5
Total current liabilities	597.5	574.2
Deferred revenues	76.4	67.4
Long term income taxes payable	46.2	
Other liabilities	45.3	40.9
Commitments and contingencies		
Stockholders' equity:		
Preferred stock		
Common stock and additional paid-in capital	927.5	908.3
Accumulated other comprehensive income (loss)	4.5	(3.6)
Retained earnings	180.7	210.3
Total stockholders' equity	1,112.7	1,115.0
	\$ 1,878.1	\$ 1,797.5

(1) These balances are derived from Autodesk's audited financial statements which were filed with the Securities and Exchange Commission in its fiscal 2007 Annual Report on Form 10-K.

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,	
	2007	2006
Operating Activities		
Net income	\$ 174.9	\$ 135.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Charge for acquired in-process research and development	1.0	
Depreciation and amortization	28.6	26.0
Stock-based compensation expense	35.9	41.7
Restructuring related charges, net		1.1
Changes in operating assets and liabilities, net of business combinations	87.8	48.8
Net cash provided by operating activities	328.2	252.9
Investing Activities		
Purchases of available-for-sale marketable securities	(705.7)	(209.8)
Sales and maturities of available-for-sale marketable securities	765.7	272.9
Business combinations, net of cash acquired	(21.3)	(43.5)
Acquisition of equity investment		(12.5)
Capital and other expenditures	(18.2)	(18.4)
Other investing activities		(0.3)
Net cash provided by (used in) investing activities	20.5	(11.6)
Financing Activities		
Proceeds from issuance of common stock, net of issuance costs	83.8	64.2
Repurchases of common stock	(325.1)	(154.4)
Net cash used in financing activities	(241.3)	(90.2)
Effect of exchange rate changes on cash and cash equivalents	1.6	0.8
Net increase in cash and cash equivalents	109.0	151.9
Cash and cash equivalents at beginning of year	665.9	287.2
Cash and cash equivalents at end of period	\$ 774.9	\$ 439.1

See accompanying Notes to Condensed Consolidated Financial Statements.

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AUTODESK, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In millions, except share and per share data)

1. *Basis of Presentation*

The accompanying unaudited Condensed Consolidated Financial Statements of Autodesk, Inc. (Autodesk or the Company) as of July 31, 2007 and for the three and six months ended July 31, 2007 have been prepared in accordance with accounting principles generally accepted in the United States 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 the opinion of management, all adjustments consisting of normal and recurring entries during the quarter considered necessary for a fair presentation of the financial position and operating results for the interim periods presented have been included. 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 and six months ended July 31, 2007 are not necessarily indicative of the results for the entire fiscal year ending January 31, 2008 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, 2007 (the 2007 Form 10-K).

2. *Recently Issued Accounting Standards*

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* including an amendment of FASB Statement No. 115 (SFAS 159), which expands the use of fair value measurement by permitting entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. This statement is required to be adopted by Autodesk as of February 1, 2008. Autodesk does not believe the adoption of SFAS 159 will have a material effect on its consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* an amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS 158). This Standard requires recognition of the funded status of a benefit plan in the statement of financial position. The Standard also requires recognition in other comprehensive income of certain gains and losses that arise during the period but are deferred under pension accounting rules, as well as modifies the timing of reporting and adds certain disclosures. SFAS 158 required that the recognition and disclosure elements be adopted as of the end of Autodesk's fiscal year ended January 31, 2007, which did not have a material effect on the Company's consolidated financial position, results of operations or cash flows. The measurement elements of SFAS 158 will be effective for the fiscal year ending January 31, 2009. Effective February 1, 2008, Autodesk will adopt the measurement elements of SFAS 158. Autodesk does not believe the adoption of the measurement elements of SFAS 158 will have a material effect on the Company's consolidated financial position, results of operations or cash flows.

In September 2006, the FASB also issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements but instead is intended to eliminate inconsistencies with respect to this topic found in various other accounting pronouncements. This Statement is effective for Autodesk as of February 1, 2008. Autodesk does not

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believe the adoption of SFAS 157 will have a material effect on its consolidated financial position, results of operations or cash flows.

3. Concentration of Credit Risks and Significant Customers

In the second quarters of fiscal 2008 and 2007, total sales to a single distributor, Tech Data Corporation, including its affiliates (Tech Data), accounted for 14% and 11% of Autodesk's consolidated net revenues, respectively. Sales to this same distributor represented 14% and 11% of Autodesk's consolidated net revenues for the six months ended July 31, 2007 and 2006, respectively. The majority of the net revenue from sales to Tech Data relates to Autodesk's Design Solutions Segment. In addition, Tech Data accounted for 17% and 16% of gross accounts receivable at July 31, 2007 and January 31, 2007.

4. Employee Stock-Based Compensation*Stock Option Plans*

As of July 31, 2007, Autodesk maintained two active stock option plans for the purpose of granting stock options to employees and members of Autodesk's Board of Directors (the Board): the 2006 Employee Stock Plan (2006 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 seven expired or terminated plans with options outstanding, including the 1996 Stock Plan which was replaced by the 2006 Employee Stock Plan in March 2006.

The 2006 Plan, which was approved by Autodesk's stockholders on November 10, 2005, reserved 9.65 million shares of Autodesk common stock plus 0.22 million shares that remained available for issuance under the 1996 Stock Plan upon its expiration, for issuance under the plan. At July 31, 2007, 3.2 million shares were available for future issuance under that plan. The 2006 Plan will expire in March 2008. 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 July 31, 2007, 0.51 million shares were available for future issuance. The 2000 Directors' Option Plan will expire in March 2009.

Options granted under the above mentioned plans vest over periods ranging from one to four years and expire within six to ten years from the date of grant. Under the 2006 Plan and the 2000 Plan, the option term is limited to no more than six years. During the first half of fiscal 2008 and all of fiscal 2007, the exercise price of all stock options granted under these plans is equal to the fair market value of the stock on the grant date.

A summary of stock option activity for the six months ended July 31, 2007 is as follows:

	Number of Shares (in thousands)	Weighted average price per share
Options outstanding at January 31, 2007	29,374	\$ 21.03
Granted	5,040	44.93
Exercised	(5,224)	16.05
Forfeited	(94)	31.74
Expired	(336)	
Options outstanding at July 31, 2007	28,760	\$ 26.01
Options exercisable at July 31, 2007	15,841	\$ 17.13
Options available for grant at July 31, 2007	3,730	

The total pre-tax intrinsic value of options exercised during the three months ended July 31, 2007 and 2006 was \$153.4 million and \$35.3 million, respectively. For the six months ended July 31, 2007 and 2006, total

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pre-tax intrinsic value of options exercised was \$153.4 million and \$105.8 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, 2007 and 2006, calculated as of the stock option grant date using the Black-Scholes-Merton option-pricing model, was \$14.68 and \$12.53 per share, respectively. The weighted average grant date fair value of stock options granted during the six months ended July 31, 2007 and 2006 was \$14.61 and \$13.44 per share, respectively. As of July 31, 2007, total compensation cost related to non-vested awards not yet recognized of \$115.8 million is expected to be recognized over a weighted average period of 2.09 years.

The following table summarizes information about options outstanding and exercisable at July 31, 2007: