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AUTODESK INC

Form 10-Q

December 05, 2017

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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 October 31, 2017

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-14338

**AUTODESK, INC.**

(Exact name of registrant as specified in its charter)

**Delaware** **94-2819853**  
(State or other jurisdiction of (I.R.S. employer  
incorporation or organization) Identification No.)

**111 McInnis Parkway,** **94903**  
**San Rafael, California**  
(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 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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.  
Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company   
Emerging growth company

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

Exchange Act. "

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

Yes " No X

As of November 30, 2017, registrant had outstanding 220,266,822 shares of common stock.

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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)

	<b>Three Months Ended October 31,</b>		<b>Nine Months Ended October 31,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Net revenue:				
Maintenance	\$244.4	\$273.2	\$769.8	\$835.1
Subscription	231.1	112.4	600.6	299.7
Total maintenance and subscription revenue	475.5	385.6	1,370.4	1,134.8
License and other	39.8	104.0	132.4	417.4
Total net revenue	515.3	489.6	1,502.8	1,552.2
Cost of revenue:				
Cost of maintenance and subscription revenue	53.9	46.8	161.6	140.2
Cost of license and other revenue	19.6	24.3	56.0	86.8
Amortization of developed technology	4.0	10.4	12.7	32.0
Total cost of revenue	77.5	81.5	230.3	259.0
Gross profit	437.8	408.1	1,272.5	1,293.2
Operating expenses:				
Marketing and sales	272.5	255.0	785.8	738.9
Research and development	191.8	192.6	573.3	579.1
General and administrative	68.8	70.4	225.1	213.7
Amortization of purchased intangibles	4.7	6.8	15.3	22.5
Restructuring charges and other facility exit costs, net	—	3.2	0.2	71.5
Total operating expenses	537.8	528.0	1,599.7	1,625.7
Loss from operations	(100.0 )	(119.9 )	(327.2 )	(332.5 )
Interest and other expense, net	(11.2 )	(9.4 )	(31.8 )	(23.1 )
Loss before income taxes	(111.2 )	(129.3 )	(359.0 )	(355.6 )
Provision for income taxes	(8.6 )	(13.5 )	(34.4 )	(53.1 )
Net loss	\$(119.8 )	\$(142.8 )	\$(393.4 )	\$(408.7 )
Basic net loss per share	\$(0.55 )	\$(0.64 )	\$(1.79 )	\$(1.83 )
Diluted net loss per share	\$(0.55 )	\$(0.64 )	\$(1.79 )	\$(1.83 )
Weighted average shares used in computing basic net loss per share	219.6	222.3	219.7	223.3
Weighted average shares used in computing diluted net loss per share	219.6	222.3	219.7	223.3

See accompanying Notes to Condensed Consolidated Financial Statements.

**AUTODESK, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

(In millions)

(Unaudited)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>October 31,</b>		<b>October 31,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Net loss	\$ (119.8)	\$ (142.8)	\$ (393.4)	\$ (408.7)
Other comprehensive (loss) income, net of reclassifications:				
Net loss on derivative instruments (net of tax effect of \$0.3, \$0.2, \$1.7 and (\$0.6), respectively)	(2.4 )	(0.7 )	(15.4 )	(11.7 )
Change in net unrealized gain (loss) on available-for-sale securities (net of tax effect of (\$0.4), \$0.0, (\$0.3), and (\$0.6), respectively)	0.2	(1.6 )	0.4	1.8
Change in defined benefit pension items (net of tax effect of \$0.0, \$0.0, \$0.0, and (\$0.2), respectively)	0.2	0.3	—	0.6
Net change in cumulative foreign currency translation (loss) gain (net of tax effect of \$0.0, (\$0.5), (\$0.9) and (\$0.5), respectively)	(0.6 )	(55.7 )	38.0	(57.1 )
Total other comprehensive (loss) income	(2.6 )	(57.7 )	23.0	(66.4 )
Total comprehensive loss	\$ (122.4)	\$ (200.5)	\$ (370.4)	\$ (475.1)

See accompanying Notes to Condensed Consolidated Financial Statements.

**AUTODESK, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(In millions)

(Unaudited)

	October 31, 2017	January 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$1,025.2	\$1,213.1
Marketable securities	428.7	686.8
Accounts receivable, net	307.8	452.3
Prepaid expenses and other current assets	110.2	108.4
Total current assets	1,871.9	2,460.6
Marketable securities	264.3	306.2
Computer equipment, software, furniture and leasehold improvements, net	148.1	158.6
Developed technologies, net	29.9	45.7
Goodwill	1,588.7	1,561.1
Deferred income taxes, net	64.7	63.9
Other assets	184.4	202.0
Total assets	\$4,152.0	\$4,798.1
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$93.3	\$93.5
Accrued compensation	195.9	238.2
Accrued income taxes	21.7	50.0
Deferred revenue	1,333.1	1,270.1
Current portion of long-term notes payable, net	—	398.7
Other accrued liabilities	106.0	134.9
Total current liabilities	1,750.0	2,185.4
Long-term deferred revenue	430.8	517.9
Long-term income taxes payable	31.3	39.3
Long-term deferred income taxes	97.9	91.5
Long-term notes payable, net	1,585.4	1,092.0
Other liabilities	149.3	138.4
Stockholders' equity:		
Common stock and additional paid-in capital	1,930.8	1,876.3
Accumulated other comprehensive loss	(155.5 )	(178.5 )
Accumulated deficit	(1,668.0 )	(964.2 )
Total stockholders' equity	107.3	733.6
Total liabilities and stockholders' equity	\$4,152.0	\$4,798.1

See accompanying Notes to Condensed Consolidated Financial Statements.

**AUTODESK, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In millions)

(Unaudited)

	<b>Nine Months Ended</b>	
	<b>October 31,</b>	
	<b>2017</b>	<b>2016</b>
Operating activities:		
Net loss	\$(393.4 )	\$(408.7 )
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation, amortization and accretion	81.5	104.5
Stock-based compensation expense	199.5	162.5
Deferred income taxes	7.3	(39.6 )
Restructuring charges and other facility exit costs, net	0.2	71.5
Other operating activities	18.1	3.4
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	143.3	393.8
Prepaid expenses and other current assets	(6.5 )	(12.7 )
Accounts payable and accrued liabilities	(69.3 )	(71.9 )
Deferred revenue	(21.8 )	15.6
Accrued income taxes	(37.3 )	(64.3 )
Net cash (used in) provided by operating activities	(78.4 )	154.1
Investing activities:		
Purchases of marketable securities	(419.6 )	(1,106.4 )
Sales of marketable securities	199.2	544.7
Maturities of marketable securities	530.1	1,012.6
Capital expenditures	(39.3 )	(65.1 )
Acquisitions, net of cash acquired	—	(85.2 )
Other investing activities	(11.5 )	(14.8 )
Net cash provided by investing activities	258.9	285.8
Financing activities:		
Proceeds from issuance of common stock, net of issuance costs	93.2	102.2
Taxes paid related to net share settlement of equity awards	(120.6 )	(58.9 )
Repurchases of common stock	(437.9 )	(397.6 )
Proceeds from debt, net of discount	496.9	—
Repayment of debt	(400.0 )	—
Other financing activities	(5.8 )	—
Net cash used in financing activities	(374.2 )	(354.3 )
Effect of exchange rate changes on cash and cash equivalents	5.8	(2.1 )
Net (decrease) increase in cash and cash equivalents	(187.9 )	83.5
Cash and cash equivalents at beginning of period	1,213.1	1,353.0
Cash and cash equivalents at end of period	\$1,025.2	\$1,436.5

See accompanying Notes to Condensed Consolidated Financial Statements.



**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," "we," "us," "our," or the "Company") as of October 31, 2017, and for the three and nine months ended October 31, 2017 and 2016, have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") 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 GAAP for annual financial statements. In management's opinion, Autodesk made all adjustments (consisting of normal, recurring and non-recurring adjustments) during the quarter that were considered necessary for the fair statement 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 nine months ended October 31, 2017 are not necessarily indicative of the results for the entire fiscal year ending January 31, 2018, or for any other period. Further, the balance sheet as of January 31, 2017 has been derived from the audited balance sheet as of this date. There have been no material changes, other than what is discussed herein, to Autodesk's significant accounting policies as compared to the significant accounting policies disclosed in the Annual Report on Form 10-K for the fiscal year ended January 31, 2017. 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, 2017, filed on March 21, 2017.

*Change in Presentation*

During the first quarter of fiscal 2018, the Company changed its historical presentation of its revenue and cost of revenue categories.

Previously, the Company presented revenue and cost of revenue on two lines: subscription, and license and other. Included within subscription was maintenance revenue for all our software products and revenue for our cloud service offerings. License and other revenue included product license revenue, standalone consulting services, and other immaterial items. Also, included within license and other revenue was an allocation of the estimated value of the software license from our term-based product subscriptions and enterprise offerings, which contain a software license, maintenance and cloud services. For these arrangements, as there is no vendor-specific-objective evidence ("VSOE") for the related maintenance, the arrangement consideration was allocated between the license and maintenance deliverables based on best estimated selling prices in our condensed consolidated statements of operations. The Company performed the allocation because it provided a meaningful presentation to investors based on the Company's then current product mix.

As part of the Company's technological and business model transition, the Company discontinued the sale of most of its perpetual licenses, transitioning away from selling a mix of perpetual licenses and term-based product subscriptions to a single subscription model involving more highly interrelated software and cloud functionalities. Fiscal 2018 marks the first full year in the Company's history that it will sell substantially term-based product subscriptions. To better reflect this shift in our business, the Company adopted a revised presentation in the first quarter of fiscal 2018, including the separation of subscription revenue and maintenance revenue on distinct line items on the Company's condensed consolidated statement of operations.

Subscription revenue now consists of our full term-based product subscriptions, cloud service offerings, and flexible enterprise business arrangements. Note that with the change in our presentation of revenue in our condensed consolidated statement of operations in the first quarter of fiscal 2018, our term-based product subscriptions and flexible enterprise business arrangements are classified and presented in a single line item.

Maintenance revenue is presented as a separate line item in the new presentation and consists of revenue from our existing maintenance plan agreements and related renewals.

License and other revenue will continue to be presented as a separate line item and include any residual perpetual licenses sold, standalone consulting services, and other immaterial items.

In connection with these revisions, the Company also revised its cost of revenue classification to present cost of subscription and maintenance revenue and amortization of developed technology separately. Cost of license and other revenue will continue to be presented as a separate line item.

This change in presentation does not affect our total net revenues, total cost of net revenues or overall gross margin. The following table shows reclassified amounts to conform to the current period presentation:

	Three Months Ended October 31, 2016			Nine Months Ended October 31, 2016		
	Previously Reported	Change in Presentation Reclassification	Current Presentation	Previously Reported	Change in Presentation Reclassification	Current Presentation
<b>Net revenue:</b>						
Maintenance (1)	N/A	\$ 273.2	\$ 273.2	N/A	\$ 835.1	\$ 835.1
Subscription	\$319.5	(207.1 )	112.4	\$967.5	(667.8 )	299.7
License and other	170.1	(66.1 )	104.0	584.7	(167.3 )	417.4
Total	\$489.6	\$ —	\$ 489.6	\$1,552.2	\$ —	\$ 1,552.2
<b>Cost of revenue:</b>						
Maintenance and subscription (2)	\$35.1	\$ 11.7	\$ 46.8	\$113.1	\$ 27.1	\$ 140.2
License and other	46.4	(22.1 )	24.3	145.9	(59.1 )	86.8
Amortization of developed technology (1)	N/A	10.4	10.4	N/A	32.0	32.0
Total	\$81.5	\$ —	\$ 81.5	\$259.0	\$ —	\$ 259.0

(1) These lines were not previously reported in the Condensed Consolidated Statement of Operations.

(2) Previously, titled "Subscription."

## 2. Recently Issued Accounting Standards

With the exception of those discussed below, there have been no recent changes in accounting pronouncements issued by the Financial Accounting Standards Board ("FASB") or adopted by the Company during the nine months ended October 31, 2017, that are of significance, or potential significance, to the Company.

### *Accounting standard adopted in the current fiscal year*

Autodesk adopted FASB's Accounting Standards Update No. 2017-04 ("ASU 2017-04"), "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" during the three months ended April 30, 2017. The ASU simplifies the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test. Under current guidance, Step 2 of the goodwill impairment test requires entities to calculate the implied fair value of goodwill in the same manner as the amount of goodwill recognized in a business combination by assigning the fair value of a reporting unit to all of the assets and liabilities of the reporting unit. The carrying value in excess of the implied fair value is recognized as goodwill impairment. Under the new standard, goodwill impairment is recognized based on Step 1 of the current guidance, which calculates the carrying value in excess of the reporting unit's fair value. The new guidance is required to be applied on a prospective basis and as such, Autodesk will use the simplified test in its annual fourth fiscal quarter testing or more often if circumstances indicate a potential impairment may exist, or if events have affected the composition of reporting units. Autodesk does not believe ASU 2017-04 will have a material impact on its consolidated financial statements.

### *Recently issued accounting standards but not yet adopted*

In August 2017, FASB issued Accounting Standards Update No. 2017-12 ("ASU 2017-12"), "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." The targeted amendments help simplify certain aspects of hedge accounting and result in a more accurate portrayal of the economics of an entity's risk management activities in its financial statements. For cash flow and net investment hedges as of the adoption date, the guidance requires a modified retrospective approach. The amended presentation and disclosure guidance is required only prospectively. The amendments are effective for Autodesk's fiscal year beginning February 1, 2019, with early adoption permitted. Autodesk is currently evaluating the accounting, transition, and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

In February 2017, FASB issued Accounting Standards Update No. 2017-05 ("ASU 2017-05"), "Other Income— Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets." The ASU, among other things, clarifies the scope of the derecognition of nonfinancial assets, the definition of in substance financial assets, and impacts the accounting for partial sales of nonfinancial assets by requiring full gain recognition upon the sale. The amendments are effective for Autodesk's fiscal year beginning February 1, 2018. The guidance may be applied retrospectively for all periods presented or retrospectively with a cumulative-effect adjustment at the date of adoption. The effect of the implementation will depend upon the nature of the Company's future acquisitions or dispositions, if any. The adoption of the guidance would not have had a material impact on acquisitions prior to the current period and on the Company's consolidated statements of financial condition and results of operations.

In January 2017, FASB issued Accounting Standards Update No. 2017-01 ("ASU 2017-01"), "Business Combinations: Clarifying the Definition of a Business" which provides a more robust framework to use in determining when a set of assets and activities is considered a business. The amendments will be effective for Autodesk's fiscal year beginning February 1, 2018. The new guidance is required to be applied on a prospective basis. The effect of the implementation will depend upon the nature of the Company's future acquisitions, if any.

In October 2016, FASB issued Accounting Standards Update No. 2016-16 ("ASU 2016-16"), "Income Taxes: Intra-Entity Transfers of Assets Other than Inventory" which requires that entities recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. The amendments will be effective for Autodesk's fiscal year beginning February 1, 2018. The new guidance is required to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Autodesk is currently evaluating the accounting and disclosure requirements of the standard. Furthermore, the actual impact of implementation will largely depend on future intra-entity asset transfers, if any.

In June 2016, FASB issued Accounting Standards Update No. 2016-13 ("ASU 2016-13") regarding ASC Topic 326, "Financial Instruments - Credit Losses," which modifies the measurement of expected credit losses of certain financial instruments. Autodesk plans to adopt ASU 2016-13 as of the effective date which represents Autodesk's fiscal year beginning February 1, 2020. Autodesk does not believe the ASU will have a material impact on its consolidated financial statements.

In February 2016, FASB issued Accounting Standards Update No. 2016-02 ("ASU 2016-02") regarding ASC Topic 842, "Leases." The amendments in this ASU require balance sheet recognition of lease assets and lease liabilities by lessees for leases classified as operating leases, with an optional policy election to not recognize lease assets and lease liabilities for leases with a term of 12 months or less. The amendments also require new disclosures, including qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. Autodesk plans to adopt ASU 2016-02 in Autodesk's fiscal year beginning February 1, 2019. The amendments require a modified retrospective approach with optional practical expedients. Autodesk is currently evaluating the accounting, transition, and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

In January 2016, FASB issued Accounting Standards Update No. 2016-01 ("ASU 2016-01") regarding ASC Topic 825-10, "Financial Instruments - Overall." The amendments address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments, and require equity securities to be measured at fair value with changes in fair value recognized through net income. The amendments also simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment for impairment quarterly at each reporting period. The amendments in ASU 2016-01 will be effective for Autodesk's fiscal year beginning February 1, 2018. An entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption, with prospective adoption of the amendments

related to equity securities without readily determinable fair values existing as of the date of adoption. Autodesk does not believe ASU 2016-01 will have a material impact on its consolidated financial statements.

In May 2014, FASB issued Accounting Standards Update No. 2014-09 (regarding ASC Topic 606, "Revenue from Contracts with Customers." ASU 2014-09 provides principles for recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, FASB issued Accounting Standards Update No. 2015-14 to defer the effective date by one year with early adoption permitted as of the original effective date. In addition, FASB issued Accounting Standards Update No. 2016-08, Accounting Standards Update No. 2016-10, Accounting Standards Update No. 2016-12, and Accounting Standard Update No. 2016-20 in March 2016, April 2016, May 2016, and December 2016, respectively, to help provide interpretive clarifications on the new guidance in ASC Topic 606.

Autodesk currently plans to adopt ASU 2014-09 as of February 1, 2018, using the modified retrospective transition method.

In terms of Autodesk's evaluation efforts, the Company has assigned internal resources in addition to the engagement of third party service providers to assist in the evaluation. The Company's preliminary assessment is that there should be no material change in the timing and amount of the recognition of revenue for the majority of the Company's product subscription offerings and enterprise arrangements. This preliminary assessment is based on the Company's analysis that the related software and cloud services in a majority of the product subscription and enterprise arrangements are not distinct in the context of the contract as they are considered highly interrelated and represent a single combined performance obligation that should be recognized over time. Due to the complexity of certain contracts, the actual revenue recognition treatment required under the new standard for these arrangements may be dependent on contract-specific terms and vary in some instances.

A limited number of Autodesk's product subscriptions do not incorporate substantial cloud services, and under ASU 2014-09 will be recognized as distinct license and service performance obligations. Revenue allocated to the licenses in these offerings will be recognized at a point in time instead of over the contract term. While we are still evaluating, Autodesk believes the impact of the change to timing of revenue recognition for these limited offerings, and other revenue streams that Autodesk is currently evaluating, may have a material balance sheet impact on the adoption date with the application of the modified retrospective transition method. It is not expected to have a material impact to reported revenue in subsequent reporting periods.

Another significant provision under ASU 2014-09 includes the capitalization and amortization of costs associated with obtaining a contract, such as sales commission. The Company expects there to be a material balance sheet impact at the period of adoption capturing the sales commission capitalization and is currently evaluating the magnitude at implementation.

Furthermore, the Company has made and will continue to make investments in systems and processes to enable timely and accurate reporting under the new standard. The Company currently expects that necessary operational and internal control structural changes will be implemented prior to the adoption date.

### ***3. Concentration of Credit Risk***

Autodesk places its cash, cash equivalents and marketable securities in highly liquid instruments with, and in the custody of, diversified financial institutions globally with high credit ratings and limits the amounts invested with any one institution, type of security and issuer. Autodesk's primary commercial banking relationship is with Citigroup Inc. and its global affiliates. Citibank, N.A., an affiliate of Citigroup, is one of the lead lenders and an agent in the syndicate of Autodesk's \$400.0 million line of credit facility.

Total sales to the distributor Tech Data Corporation and its global affiliates ("Tech Data") accounted for 32% and 31% of Autodesk's total net revenue for the three months ended October 31, 2017 and 2016, respectively, and 31% and 30% of Autodesk's total net revenue for the nine months ended October 31, 2017 and 2016, respectively. The majority of the net revenue from sales to Tech Data is for sales made outside of the United States. In addition, Tech Data accounted for 28% and 20% of trade accounts receivable at October 31, 2017 and January 31, 2017, respectively.

**4. Financial Instruments**

The following tables summarize the Company's financial instruments' amortized cost, gross unrealized gains, gross unrealized losses, and fair value by significant investment category as of October 31, 2017 and January 31, 2017:

	October 31, 2017			Fair Value	Level 1	Level 2	Level 3
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses				
Cash equivalents (1):							
Certificates of deposit	63.1	—	—	63.1	63.1	—	—
Corporate debt securities	8.0	—	—	8.0	8.0	—	—
Commercial paper	166.5	—	—	166.5	—	166.5	—
Custody cash deposit	0.9	—	—	0.9	0.9	—	—
Money market funds	144.8	—	—	144.8	—	144.8	—
U.S. government securities	250.0	—	—	250.0	250.0	—	—
Marketable securities:							
Short-term available-for-sale							
Agency bonds	7.5	—	—	7.5	7.5	—	—
Asset backed securities	30.4	—	—	30.4	—	30.4	—
Certificates of deposit	4.0	—	—	4.0	4.0	—	—
Commercial paper	31.3	—	—	31.3	—	31.3	—
Corporate debt securities	218.7	0.1	(0.1)	218.7	218.7	—	—
Municipal bonds	15.5	—	—	15.5	15.5	—	—
Sovereign debt	6.0	—	—	6.0	—	6.0	—
U.S. government securities	58.8	—	—	58.8	58.8	—	—
Short-term trading securities							
Mutual funds	49.1	7.4	—	56.5	56.5	—	—
Long-term available-for-sale							
Agency bonds	12.2	—	—	12.2	12.2	—	—
Asset backed securities	60.8	—	(0.1)	60.7	—	60.7	—
Corporate debt securities	143.1	0.2	(0.1)	143.2	143.2	—	—
Municipal bonds	12.8	—	(0.1)	12.7	12.7	—	—
Sovereign debt	2.7	—	—	2.7	—	2.7	—
U.S. government securities	32.9	—	(0.1)	32.8	32.8	—	—
Convertible debt securities (2)	8.4	0.6	—	9.0	—	—	9.0
Derivative contract assets (3)	2.4	7.2	(0.5)	9.1	—	7.1	2.0
Derivative contract liabilities (4)	—	—	(8.9)	(8.9)	—	(8.9)	—
<b>Total</b>	<b>\$1,329.9</b>	<b>\$ 15.5</b>	<b>\$ (9.9)</b>	<b>\$1,335.5</b>	<b>\$883.9</b>	<b>\$440.6</b>	<b>\$11.0</b>

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

(2) Considered "available-for-sale" and included in "Other assets" in the accompanying Condensed Consolidated Balance Sheets.

(3) Included in "Prepaid expenses and other current assets" or "Other assets" in the accompanying Condensed Consolidated Balance Sheets.

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



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	January 31, 2017						
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Level 1	Level 2	Level 3
Cash equivalents (1):							
Agency bonds	\$6.0	\$ —	\$ —	\$6.0	\$6.0	\$—	\$—
Certificates of deposit	63.1	—	—	63.1	63.1	—	—
Commercial paper	207.4	—	—	207.4	—	207.4	—
Corporate debt securities	40.2	—	—	40.2	40.2	—	—
Custody cash deposit	3.2	—	—	3.2	3.2	—	—
Money Market funds	256.5	—	—	256.5	—	256.5	—
Municipal bonds	5.0	—	—	5.0	5.0	—	—
Sovereign debt	15.0	—	—	15.0	—	15.0	—
U.S. government securities	309.5	—	—	309.5	309.5	—	—
Marketable securities:							
Short-term available-for-sale							
Agency bonds	13.2	—	—	13.2	13.2	—	—
Asset backed securities	19.6	—	—	19.6	—	19.6	—
Certificates of deposit	157.3	—	—	157.3	157.3	—	—
Commercial paper	109.2	—	—	109.2	—	109.2	—
Corporate debt securities	234.7	—	(0.2 )	234.5	234.5	—	—
Municipal bonds	43.4	—	—	43.4	43.4	—	—
Sovereign debt	30.0	—	—	30.0	—	30.0	—
U.S. government securities	32.3	—	—	32.3	32.3	—	—
Short-term trading securities							
Mutual funds	44.8	2.5	—	47.3	47.3	—	—
Long-term available-for-sale							
Agency bonds	7.1	—	—	7.1	7.1	—	—
Asset backed securities	65.8	0.1	—	65.9	—	65.9	—
Corporate debt securities	172.1	0.1	(0.1 )	172.1	172.1	—	—
Municipal bonds	10.7	—	—	10.7	10.7	—	—
Sovereign debt	1.5	—	—	1.5	—	1.5	—
U.S. government securities	48.8	0.1	—	48.9	48.9	—	—
Convertible debt securities (2)	4.9	2.3	(1.6 )	5.6	—	—	5.6
Derivative contract assets (3)	2.2	12.3	(1.3 )	13.2	—	11.9	1.3
Derivative contract liabilities (4)	—	—	(10.4 )	(10.4 )	—	(10.4 )	—
<b>Total</b>	<b>\$1,903.5</b>	<b>\$ 17.4</b>	<b>\$ (13.6 )</b>	<b>\$1,907.3</b>	<b>\$1,193.8</b>	<b>\$706.6</b>	<b>\$6.9</b>

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

(2) Considered “available-for-sale” and included in “Other assets” in the accompanying Condensed Consolidated Balance Sheets.

(3) Included in “Prepaid expenses and other current assets,” “Other assets,” or “Other accrued liabilities” in the accompanying Condensed Consolidated Balance Sheets.

(4) Included in “Other accrued liabilities” in the accompanying Condensed Consolidated Balance Sheets.

Autodesk classifies its marketable securities as either short-term or long-term based on each instrument’s underlying contractual maturity date. Marketable securities with remaining maturities of up to 12 months are classified as short-term and marketable securities with remaining 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 or in

anticipation of credit deterioration.

Autodesk applies fair value accounting for certain financial assets and liabilities, which consist of cash equivalents, marketable securities and other financial instruments, that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company defines fair value as the price that would be received from selling an asset or paid to transfer

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a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and (Level 3) unobservable inputs for which there is little or no market data, which require Autodesk to develop its own assumptions. When determining fair value, Autodesk uses observable market data and relies on unobservable inputs only when observable market data is not available. There have been no transfers between fair value measurement levels during the nine months ended October 31, 2017.

Autodesk's cash equivalents, marketable securities and financial instruments are primarily classified within Level 1 or Level 2 of the fair value hierarchy. Autodesk values its available-for-sale securities on pricing from pricing vendors, who may use quoted prices in active markets for identical assets (Level 1) or inputs other than quoted prices that are observable either directly or indirectly in determining fair value (Level 2). Autodesk's Level 2 securities are valued primarily using observable inputs other than quoted prices in active markets for identical assets and liabilities. Autodesk's Level 3 securities consist of investments held in convertible debt securities and derivative contracts which are valued using probability weighted discounted cash flow models as some of the inputs to the models are unobservable in the market.

A reconciliation of the change in Autodesk's Level 3 items for the nine months ended October 31, 2017 follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Derivative Contracts	Convertible Debt Securities	Total
Balances, January 31, 2017	\$ 1.3	\$ 5.6	\$ 6.9
Purchases	1.1	5.9	7.0
Losses included in earnings	(0.4 )	(2.4 )	(2.8 )
Losses included in OCI	—	(0.1 )	(0.1 )
Balances, October 31, 2017	\$ 2.0	\$ 9.0	\$ 11.0

The following table summarizes the estimated fair value of Autodesk's "available-for-sale securities" classified by the contractual maturity date of the security:

	October 31, 2017	
	Cost	Fair Value
Due within 1 year	\$377.4	\$ 377.9
Due in 1 year through 5 years	259.4	259.3
Due in 5 years through 10 years	5.7	5.7
Due after 10 years	2.6	2.6
Total	\$645.1	\$ 645.5

As of October 31, 2017 and January 31, 2017, Autodesk had no securities, individually and in the aggregate, in a continuous unrealized loss position for greater than twelve months.

As of October 31, 2017 and January 31, 2017, Autodesk had \$116.2 million and \$117.2 million, respectively, in direct investments in privately held companies accounted for under the cost method, which are periodically assessed for other-than-temporary impairment. Other than the amounts disclosed in the following paragraph, Autodesk does not intend to sell these cost method investments and it is not more likely than not that Autodesk will be required to sell the investment before recovery of the amortized cost bases, which may be maturity. Therefore, Autodesk does not consider those investments to be other-than-temporarily impaired at October 31, 2017. Autodesk estimates fair value of its cost method investments considering available information such as pricing in recent rounds of financing, current cash positions, earnings and cash flow forecasts, recent operational performance and any other readily available market data.

If Autodesk determines that an other-than-temporary impairment has occurred, Autodesk writes down the investment to its fair value. During the three and nine months ended October 31, 2017, Autodesk recorded \$3.9 million and \$8.0 million, respectively, in other-than-temporary impairments on its privately held investments. During the three months ended October 31, 2016, Autodesk recorded no other-than-temporary impairments on its privately held investments. During the nine months ended October 31, 2016, Autodesk recorded \$0.3 million in other-than-temporary impairments on its privately held investments.

There was no loss or gain for the sales or redemptions of "available-for-sale securities" during the nine months ended October 31, 2017. The sales or redemptions of "available-for-sale securities" during the nine months ended October 31, 2016 resulted in a gain of \$0.7 million. Gains and losses resulting from the sale or redemption of "available-for-sale securities" are recorded in "Interest and other expense, net" on the Company's Condensed Consolidated Statements of Operations.

Proceeds from the sale and maturity of marketable securities for the nine months ended October 31, 2017 and 2016 were \$729.3 million and \$1,557.3 million, respectively.

#### *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 business operations. Autodesk's general practice is to hedge a portion of transaction exposures denominated in euros, Japanese yen, Swiss francs, British pounds, Canadian dollars and Australian dollars. These instruments have maturities between one and twelve months in the future. Autodesk does not enter into derivative instrument transactions for trading or speculative purposes.

The bank counterparties to the derivative contracts potentially 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 ongoing assessment of counterparty risk, the Company will adjust its exposure to various counterparties. Autodesk generally enters into master netting arrangements, which reduce credit risk by permitting net settlement of transactions with the same counterparty. However, Autodesk does not have any master netting arrangements in place with collateral features.

#### **Foreign currency contracts designated as cash flow hedges**

Autodesk uses 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 are designated and documented as cash flow hedges. The effectiveness of the cash flow hedge contracts is assessed quarterly using regression analysis as well as other timing and probability criteria. To receive cash flow 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 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 loss" to "Interest and other expense, net" in the Company's Condensed Consolidated Financial Statements at that time.

The net notional amounts of these contracts are presented net settled and were \$613.6 million at October 31, 2017 and \$369.4 million at January 31, 2017. Outstanding contracts are recognized as either assets or liabilities on the balance sheet at fair value. The majority of the net loss of \$0.8 million remaining in "Accumulated other comprehensive loss" as of October 31, 2017 is expected to be recognized into earnings within the next twelve months.

**Derivatives not designated as hedging instruments**

Autodesk uses foreign currency contracts that are not designated as hedging instruments to reduce the exchange rate risk associated primarily with foreign currency denominated receivables and payables. These forward contracts are marked-to-market at the end of each fiscal quarter with gains and losses recognized as “Interest and other 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 net notional amounts of these foreign currency contracts are presented net settled and were \$189.0 million at October 31, 2017 and \$270.6 million at January 31, 2017.

In addition to these foreign currency contracts, Autodesk holds derivative instruments issued by privately held companies, which are not designated as hedging instruments. These derivatives consist of certain conversion options on the convertible debt securities held by Autodesk and an option to acquire a privately held company. These derivatives are recorded at fair value as of each balance sheet date and are recorded in "Other assets." Changes in the fair values of these instruments are recognized in "Interest and other expense, net."

### Fair Value of Derivative Instruments

The fair values of derivative instruments in Autodesk's Condensed Consolidated Balance Sheets were as follows as of October 31, 2017 and January 31, 2017:

	Balance Sheet Location	Fair Value at October 31, 2017		Fair Value at January 31, 2017	
<i>Derivative Assets</i>					
Foreign currency contracts designated as cash flow hedges	Prepaid expenses and other current assets	\$4.4	\$ 10.1		
Derivatives not designated as hedging instruments	Prepaid expenses and other current assets and Other assets	4.7	3.2		
Total derivative assets		\$9.1	\$ 13.3		
<i>Derivative Liabilities</i>					
Foreign currency contracts designated as cash flow hedges	Other accrued liabilities	\$8.5	\$ 4.5		
Derivatives not designated as hedging instruments	Other accrued liabilities	0.4	6.0		
Total derivative liabilities		\$8.9	\$ 10.5		

The effects of derivatives designated as hedging instruments on Autodesk's Condensed Consolidated Statements of Operations were as follows for the three and nine months ended October 31, 2017 and 2016 (amounts presented include any income tax effects):

	Foreign Currency Contracts			
	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
<i>Amount of gain (loss) recognized in accumulated other comprehensive (loss) income on derivatives (effective portion)</i>	\$2.9	\$1.8	\$(8.5)	\$(3.1)
<i>Amount and location of gain (loss) reclassified from accumulated other comprehensive (loss) income into (loss) income (effective portion)</i>				
Net revenue	\$2.4	\$1.0	\$7.2	\$8.4
Operating expenses	2.9	1.5	(0.3)	0.2
Total	\$5.3	\$2.5	\$6.9	\$8.6
<i>Amount and location of gain (loss) recognized in (loss) income on derivatives (ineffective portion and amount excluded from effectiveness testing)</i>				
Interest and other expense, net	\$—	\$(0.1)	\$(0.1)	\$(0.5)

The effects of derivatives not designated as hedging instruments on Autodesk's Condensed Consolidated Statements of Operations were as follows for the three and nine months ended October 31, 2017 and 2016 (amounts presented include any income tax effects):

Three Months Ended October 31,	Nine Months Ended October 31,
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	2017	2016	2017	2016
<i>Amount and location of gain (loss) recognized in (loss) income on derivatives</i>				
Interest and other expense, net	\$0.9	\$(1.4)	\$(7.4)	\$(12.3)



## 5. Stock-based Compensation Expense

### Restricted Stock Units:

A summary of restricted stock activity for the nine months ended October 31, 2017 is as follows:

	Unvested Restricted Stock Units	Weighted average grant date fair value per share
	(in thousands)	
Unvested restricted stock units at January 31, 2017	7,622.4	\$ 60.13
Granted	2,036.6	106.45
Vested	(3,156.6 )	57.21
Canceled/Forfeited	(534.3 )	67.05
Performance Adjustment (1)	24.7	61.79
Unvested restricted stock units at October 31, 2017	5,992.8	\$ 78.94

(1) Based on Autodesk's financial results and relative total stockholder return for the fiscal 2017 performance period. The performance stock units were attained at rates ranging from 99.7% to 114.7% of the target award.

The fair value of the shares vested during the nine months ended October 31, 2017 and 2016 was \$332.8 million and \$180.3 million, respectively.

During the nine months ended October 31, 2017, Autodesk granted 1.8 million restricted stock units. Autodesk recorded stock-based compensation expense related to restricted stock units of \$51.5 million and \$45.2 million during the three months ended October 31, 2017 and 2016, respectively. Autodesk recorded stock-based compensation expense related to restricted stock units of \$153.5 million and \$125.5 million during the nine months ended October 31, 2017 and 2016, respectively. The \$153.5 million of stock-based compensation expense for the nine months ended October 31, 2017 includes \$9.1 million related to the acceleration of eligible restricted stock awards in conjunction with the Company's CEO transition.

During the nine months ended October 31, 2017, Autodesk granted 0.2 million performance stock units for which the ultimate number of shares earned is determined based on the achievement of performance criteria at the end of the stated service and performance period. During the period, we granted two different types of performance stock units.

The performance criteria for the first type of performance stock units were based on a mix of net subscription additions, Annualized Recurring Revenue ("ARR"), non-GAAP total spend, and total subscription renewal rate goals adopted by the Compensation and Human Resource Committee, as well as total stockholder return compared against companies in the S&P Computer Software Select Index or the S&P North American Technology Software Index ("Relative TSR"). These performance stock units vest over a three-year period and have the following vesting schedule:

Up to one third of the performance stock units may vest following year one, depending upon the achievement of the performance criteria for fiscal 2018 as well as 1-year Relative TSR (covering year one).

- Up to one third of the performance stock units may vest following year two, depending upon the achievement of the performance criteria for year two as well as 2-year Relative TSR (covering years one and two).

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Up to one third of the performance stock units may vest following year three, depending upon the achievement of the performance criteria for year three as well as 3-year Relative TSR (covering years one, two and three).

The performance criteria for the second type of performance stock units granted to our Chief Executive Officer during the nine months ended October 31, 2017 were based on fiscal 2020 free cash flow per share and ARR goals adopted by the Compensation and Human Resource Committee. These performance stock units vest in March 2020 based on the Company's fiscal 2020 performance against the performance criteria.

Performance 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. Autodesk has determined the grant date fair value for these awards using stock price on the date of grant or if the awards are also subject to a market condition, a Monte Carlo simulation

model. The fair value of the performance stock units is expensed using the accelerated attribution over the vesting period. Autodesk recorded stock-based compensation expense related to performance stock units of \$7.1 million and \$4.9 million for the three months ended October 31, 2017 and 2016, respectively. Autodesk recorded stock-based compensation expense related to performance stock units of \$27.7 million and \$17.1 million for the nine months ended October 31, 2017 and 2016, respectively. The \$27.7 million of stock-based compensation expense for the nine months ended October 31, 2017 includes \$7.5 million related to the acceleration of eligible performance stock awards in conjunction with the Company's CEO transition.

*1998 Employee Qualified Stock Purchase Plan ("ESPP")*

Under Autodesk's ESPP, 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 eligible compensation, subject to certain limitations, at 85% of the lower of Autodesk's closing price (fair market value) on the offering date or the exercise date. The offering period for ESPP awards consists of four, six-month exercise periods within a 24-month offering period.

A summary of the ESPP activity for three and nine months ended October 31, 2017 and 2016 is as follows:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
Issued shares	0.9	1.1	2.0	2.3
Average price of issued shares	\$39.92	\$37.36	\$39.03	\$36.99
Weighted average grant date fair value of awards granted under the ESPP (1)	\$33.04	\$20.75	\$32.41	\$19.20

(1) Calculated as of the award grant date using the Black-Scholes Merton ("BSM") option pricing model.

*Stock-based Compensation Expense*

The following table summarizes stock-based compensation expense for the three and nine months ended October 31, 2017 and 2016, respectively, as follows:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
Cost of maintenance and subscription revenue (1)	\$2.8	\$2.2	\$8.5	\$6.2
Cost of license and other revenue (1)	1.0	1.3	3.1	4.1
Marketing and sales	27.7	24.2	80.1	69.0
Research and development	20.1	20.9	61.7	60.0
General and administrative	13.5	8.0	46.1	23.2
Stock-based compensation expense related to stock awards and ESPP purchases	65.1	56.6	199.5	162.5
Tax benefit	(1.3 )	—	(1.6 )	—
Stock-based compensation expense related to stock awards and ESPP purchases, net of tax	\$63.8	\$56.6	\$197.9	\$162.5

(1) Prior periods have been adjusted to conform with the current period's presentation. See Note 1, "Basis of Presentation," for additional information.



*Stock-based Compensation Expense Assumptions*

Autodesk determines the grant date fair value of its share-based payment awards using a BSM option pricing model or the quoted stock price on the date of grant, unless the awards are subject to market conditions, in which case Autodesk uses a binomial-lattice model (e.g., Monte Carlo simulation model). The Monte Carlo simulation model uses multiple input variables to estimate the probability that market conditions will be achieved. Autodesk uses the following assumptions to estimate the fair value of stock-based awards:

	<b>Three Months Ended October 31, 2017</b>		<b>Three Months Ended October 31, 2016</b>	
	<b>Performance Stock Unit (1)</b>	<b>ESPP</b>	<b>Performance Stock Unit (1)</b>	<b>ESPP</b>
Range of expected volatilities	N/A	31.7 - 33.4%	N/A	31.0 - 33.9%
Range of expected lives (in years)	N/A	0.5 - 2.0	N/A	0.5 - 2.0
Expected dividends	N/A	—%	N/A	—%
Range of risk-free interest rates	N/A	1.2 - 1.4%	N/A	0.5 - 0.8%
	<b>Nine Months Ended October 31, 2017</b>		<b>Nine Months Ended October 31, 2016</b>	
	<b>Performance Stock Unit</b>	<b>ESPP</b>	<b>Performance Stock Unit</b>	<b>ESPP</b>
Range of expected volatilities	31.8%	31.4 - 33.7%	38.4 - 38.6%	30.0 - 40.2%
Range of expected lives (in years)	N/A	0.5 - 2.0	N/A	0.5 - 2.0
Expected dividends	—%	—%	—%	—%
Range of risk-free interest rates	1.0 - 1.2%	0.9 - 1.4%	0.6 - 0.7%	0.5 - 0.9%

(1) Autodesk did not grant PSUs that were subject to market conditions in the three months ended October 31, 2017 or 2016.

Autodesk estimates expected volatility for stock-based awards based on the average of the following two measures: (1) a measure of historical volatility in the trading market for the Company's common stock, and (2) the implied volatility of traded forward call options to purchase shares of the Company's common stock. The expected volatility for performance stock units subject to market conditions includes the expected volatility of Autodesk's peer companies within the S&P Computer Software Select Index or S&P North American Technology Software Index with a market capitalization over \$2.00 billion, depending on the award type.

The range of expected lives of ESPP awards are based upon the four, six-month exercise periods within a 24-month offering period.

Autodesk does not currently pay, and does not anticipate paying in the foreseeable future, any cash dividends. Consequently, an expected dividend yield of zero is used in the BSM option pricing model and the Monte Carlo simulation model.

The risk-free interest rate used in the BSM option pricing model and the Monte Carlo simulation model for stock-based awards is the historical yield on U.S. Treasury securities with equivalent remaining lives.

Autodesk recognizes expense only for the stock-based awards that ultimately vest. As permitted by ASU 2016-09, Autodesk accounts for forfeitures of our stock-based awards as those forfeitures occur.

## **6. Income Tax**

Autodesk's income tax expense was \$8.6 million and \$13.5 million for the three months ended October 31, 2017 and 2016, respectively, relative to pre-tax losses of \$111.2 million and \$129.3 million, respectively, for the same periods. The decrease in income tax expense was primarily due to the lower forecasted worldwide tax expense as the result of changes in the geographic mix of worldwide pre-tax book income. For the three months ended October 31, 2016, the discrete items were primarily from tax benefit on acceleration of revenue while the discrete items for the three months ended October 31, 2017 related to the expiration of the statute of limitations related to an uncertain tax position and the excess tax benefit of stock compensation. Autodesk's income tax expense was \$34.4 million and \$53.1 million for the nine months ended October 31, 2017 and 2016, respectively, relative to pre-tax losses of \$359.0 million and \$355.6 million, respectively, for the same periods. The decrease in income tax expense was primarily discrete items in the quarter related to the expiration of the statute of limitations related to an uncertain tax position, the excess tax benefit of stock compensation and the reversal of foreign withholding tax accruals. Income tax expense consists primarily of foreign taxes, U.S. tax expense related to indefinite-lived intangibles, and withholding taxes.

Autodesk regularly assesses the need for a valuation allowance against its deferred tax assets. In making that assessment, Autodesk considers both positive and negative evidence related to the likelihood of realization of the deferred tax assets to determine, based on the weight of available evidence, whether it is more likely than not that some or all of the deferred tax assets will not be realized. In evaluating the need for a valuation allowance, Autodesk considered cumulative losses in the United States arising from the Company's business model transition as a significant piece of negative evidence and established a valuation allowance against the Company's U.S. deferred tax assets in fiscal 2016. Based on the positive and negative evidence as of October 31, 2017, the Company continues to maintain a valuation allowance for the U.S. deferred tax assets.

As of October 31, 2017, the Company had \$291.4 million of gross unrecognized tax benefits, excluding interest, of which approximately \$277.4 million represents the amount of unrecognized tax benefits that would impact the effective tax rate, if recognized. However, this rate impact would be \$30.8 million to the extent that recognition of unrecognized tax benefits currently presented as a reduction of deferred tax assets would increase the valuation allowance. It is possible that the amount of unrecognized tax benefits will change in the next twelve months; however, an estimate of the range of the possible change cannot be made at this time.

The Internal Revenue Service has started an examination of the Company's U.S. consolidated federal income tax returns for fiscal years 2014 and 2015. While it is possible that the Company's tax positions may be challenged, the Company believes its positions are consistent with the tax law, and the balance sheet reflects appropriate liabilities for uncertain federal tax positions for the years being examined.

## **7. Acquisitions**

During the nine months ended October 31, 2017, Autodesk did not complete any business combinations or technology acquisitions.

For acquisitions accounted for as business combinations, Autodesk records the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The fair values assigned to the identifiable intangible assets acquired were based on estimates and assumptions determined by management. Autodesk records the excess of consideration transferred over the aggregate fair values as goodwill. The goodwill recorded is primarily attributable to synergies expected to arise after the acquisitions.



**8. Other Intangible Assets, Net**

Other intangible assets including developed technologies, customer relationships, trade names, patents, user lists and the related accumulated amortization were as follows:

	October 31, 2017	January 31, 2017
Developed technologies, at cost	\$ 577.0	\$ 583.6
Customer relationships, trade names, patents, and user lists, at cost (1)	367.1	375.9
Other intangible assets, at cost (2)	944.1	959.5
Less: Accumulated amortization	(882.5 )	(862.0 )
Other intangible assets, net	\$ 61.6	\$ 97.5

(1) Included in "Other assets" in the accompanying Condensed Consolidated Balance Sheets.

(2) Includes the effects of foreign currency translation.

**9. Goodwill**

Goodwill consists of the excess of consideration transferred over the fair value of net assets acquired in business combinations. The following table summarizes the changes in the carrying amount of goodwill for the nine months ended October 31, 2017:

Balance as of January 31, 2017	\$ 1,710.3
Less: accumulated impairment losses as of January 31, 2017	(149.2 )
Net balance as of January 31, 2017	1,561.1
Additions arising from acquisitions during the period	—
Effect of foreign currency translation, purchase accounting adjustments, and other during the period	27.6
Balance as of October 31, 2017	\$ 1,588.7

Autodesk operates as a single operating segment and single reporting unit. As such, when Autodesk tests goodwill for impairment annually in its fourth fiscal quarter, it is performed on the Company's single reporting unit. Autodesk performs impairment testing more often if circumstances indicate a potential impairment may exist, or if events have affected the composition of reporting units.

When goodwill is assessed for impairment, Autodesk has the option to perform an assessment of qualitative factors of impairment ("optional assessment") prior to necessitating a quantitative impairment test. Should the optional assessment be used for any given fiscal year, qualitative factors to consider include cost factors; financial performance; legal, regulatory, contractual, political, business, or other factors; entity specific factors; industry and market considerations, macroeconomic conditions, and other relevant events and factors affecting the reporting unit. If, after assessing the totality of events or circumstances, it is more likely than not that the fair value of the reporting unit is greater than its carrying value, then performing the quantitative impairment test is unnecessary.

The quantitative impairment test is necessary when either Autodesk does not use the optional assessment or, as a result of the optional assessment, it is not more likely than not that the fair value of the reporting unit is greater than its carrying value.

As described in Note 2, "Recently Issued Accounting Standards," Autodesk early adopted ASU 2017-04, which simplifies the subsequent measurement of goodwill to eliminate Step 2 from the goodwill impairment test, removing the need to determine the implied fair value of goodwill and comparing it to the carrying amount of that goodwill to



measure the impairment loss, if any. In situations in which an entity's reporting unit is publicly traded, the fair value of the Company may be approximated by its market capitalization, in performing the quantitative impairment test.

Goodwill impairment exists when the estimated fair value of goodwill is less than its carrying value. If impairment exists, the carrying value of the goodwill is reduced to fair value through an impairment charge recorded in our statements of operations. The process of evaluating the potential impairment of goodwill is subjective and requires significant judgment at many points during the analysis. The value of Autodesk's goodwill could also be impacted by future adverse changes such as:

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(i) declines in Autodesk's actual financial results, (ii) a sustained decline in Autodesk's market capitalization, (iii) a significant slowdown in the worldwide economy or the industries Autodesk serves, or (iv) changes in Autodesk's business strategy.

There was no goodwill impairment during the three and nine months October 31, 2017.

### **10. Deferred Compensation**

At October 31, 2017, Autodesk had marketable securities totaling \$693.0 million, of which \$56.5 million related to investments in debt and equity securities that are held in a rabbi trust under non-qualified deferred compensation plans. The total related deferred compensation liability was \$56.5 million at October 31, 2017, of which \$3.8 million was classified as current and \$52.7 million was classified as non-current liabilities. The total related deferred compensation liability at January 31, 2017 was \$47.3 million, of which \$3.1 million was classified as current and \$44.2 million was classified as non-current liabilities. The securities are recorded in the Condensed Consolidated Balance Sheets under the current portion of "Marketable securities." The current and non-current portions of the liability are recorded in the Condensed Consolidated Balance Sheets under "Accrued compensation" and "Other liabilities," respectively.

### **11. Computer Equipment, Software, Furniture and Leasehold Improvements, Net**

Computer equipment, software, furniture, leasehold improvements and the related accumulated depreciation were as follows:

	<b>October 31,</b>	<b>January 31,</b>
	<b>2017</b>	<b>2017</b>
Computer hardware, at cost	\$ 210.8	\$ 206.1
Computer software, at cost	70.5	73.5
Leasehold improvements, land and buildings, at cost	221.9	206.3
Furniture and equipment, at cost	61.9	58.2
	565.1	544.1
Less: Accumulated depreciation	(417.0 )	(385.5 )
Computer software, hardware, leasehold improvements, furniture and equipment, net	\$ 148.1	\$ 158.6

### **12. Borrowing Arrangements**

In June 2017, Autodesk issued \$500.0 million aggregate principal amount of 3.5% notes due June 15, 2027 (collectively, the "2017 Notes"). Net of a discount of \$3.1 million and issuance costs of \$4.9 million, Autodesk received net proceeds of \$492.0 million from issuance of the 2017 Notes. Both the discount and issuance costs are being amortized to interest expense over the term of the 2017 Notes using the effective interest method. The proceeds of the 2017 Notes have been used for the repayment of \$400.0 million of debt due December 15, 2017 and the remainder is available for general corporate purposes. Autodesk may redeem the 2017 Notes at any time, subject to a make whole premium. In addition, upon the occurrence of certain change of control triggering events, Autodesk may be required to repurchase the 2017 Notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest to the date of repurchase. The 2017 Notes contain restrictive covenants that limit Autodesk's ability to create certain liens, to enter into certain sale and leaseback transactions and to consolidate or merge with, or convey, transfer or lease all or substantially all of its assets, subject to important qualifications and exceptions. Based on quoted market prices, the fair value of the 2017 Notes was approximately \$502.7 million as of October 31, 2017.

In June 2015, Autodesk issued \$450.0 million aggregate principal amount of 3.125% notes due June 15, 2020 and \$300.0 million aggregate principal amount of 4.375% notes due June 15, 2025 (collectively, the “2015 Notes”). Net of a discount of \$1.7 million and issuance costs of \$6.3 million, Autodesk received net proceeds of \$742.0 million from issuance of the 2015 Notes. Both the discount and issuance costs are being amortized to interest expense over the respective terms of the 2015 Notes using the effective interest method. The proceeds of the 2015 Notes are available for general corporate purposes. Autodesk may redeem the 2015 Notes at any time, subject to a make whole premium. In addition, upon the occurrence of certain change of control triggering events, Autodesk may be required to repurchase the 2015 Notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest to the date of repurchase. The 2015 Notes contain restrictive covenants that limit Autodesk's ability to create certain liens, to enter into certain sale and leaseback transactions and to consolidate or merge with, or convey, transfer or lease all or substantially all of its assets, subject to important qualifications and exceptions. Based on quoted market prices, the fair value of the 2015 Notes was approximately \$781.9 million as of October 31, 2017.

In December 2012, Autodesk issued \$400.0 million aggregate principal amount of 1.95% notes due December 15, 2017 and \$350.0 million aggregate principal amount of 3.6% notes due December 15, 2022 (collectively, the “2012 Notes”). Autodesk received net proceeds of \$739.3 million from issuance of the 2012 Notes, net of a discount of \$4.5 million and issuance costs of \$6.1 million. Both the discount and issuance costs are being amortized to interest expense over the respective terms of the 2012 Notes using the effective interest method. The proceeds of the 2012 Notes are available for general corporate purposes. On July 27, 2017, Autodesk redeemed in full \$400.0 million in aggregate principal amount of its outstanding 1.95% senior notes due December 15, 2017. The redemption was completed pursuant to the optional redemption provisions of the first supplemental indenture dated December 13, 2012. To redeem the notes, Autodesk used the proceeds of the 2017 Notes to pay a redemption price of approximately \$400.9 million, plus accrued and unpaid interest. Total cash repayment was \$401.8 million. The Company did not incur any additional early termination penalties in connection with such redemption. Based on the quoted market price, the fair value of the remaining 2012 Notes was approximately \$360.8 million as of October 31, 2017.

Autodesk’s line of credit facility permits unsecured short-term borrowings of up to \$400.0 million, with an option to request an increase in the amount of the credit facility by up to an additional \$100.0 million, and is available for working capital or other business needs. This credit agreement contains customary covenants that could restrict the imposition of liens on Autodesk’s assets, and restrict the Company’s ability to incur additional indebtedness or make dispositions of assets if Autodesk fails to maintain the financial covenants. As the result of a forecasted inability to comply with the credit agreement’s minimum interest coverage ratio in the first quarter of fiscal 2018, the Company renegotiated the credit agreement’s financial covenants in April 2017. The financial covenants now consist of a maximum debt to total cash ratio, a fixed charge coverage ratio through April 30, 2018, and after April 30, 2018, a minimum interest coverage ratio.

The line of credit is syndicated with various financial institutions, including Citibank, N.A., an affiliate of Citigroup, which is one of the lead lenders and an agent. The maturity date on the line of credit is May 2020. At October 31, 2017, Autodesk was in compliance with the credit facility’s covenants and had no outstanding borrowings on this line of credit.

### ***13. Restructuring charges and other facility exit costs, net***

In February 2016, the Board of Directors approved a world-wide restructuring plan (“Fiscal 2017 Plan”) in order to re-balance staffing levels and reduce operating expenses to better align them with the evolving needs of the business. The Company paid substantially all of the employee termination benefits and facility related liabilities under the Fiscal 2017 Plan by the end of fiscal 2017.

The following table sets forth the restructuring charges and other lease termination exit costs during the nine months ended October 31, 2017:

	Balances, January 31, 2017	Additions	Payments	Adjustments (1)	Balances, October 31, 2017
<b><i>Fiscal 2017 Plan</i></b>					
Employee termination costs	\$ 1.1	\$ 0.1	\$ (1.4 )	\$ 0.2	\$ —
Lease termination and other exit costs	1.9	0.1	(1.4 )	(0.3 )	0.3
<b><i>Other Lease Termination Costs</i></b>					
Lease termination costs	4.5	0.3	(2.3 )	(0.2 )	2.3
Total	\$ 7.5	\$ 0.5	\$ (5.1 )	\$ (0.3 )	\$ 2.6
Current portion (2)	\$ 5.9				\$ 2.4
Non-current portion (2)	1.6				0.2
Total	\$ 7.5				\$ 2.6

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- (1) Adjustments primarily include the impact from a change in sublease assumptions related to certain lease terminations.
- (2) The current and non-current portions of the reserve are recorded in the Condensed Consolidated Balance Sheets under “Other accrued liabilities” and “Other liabilities,” respectively.

## ***14. Commitments and Contingencies***

### *Guarantees and Indemnifications*

In the normal course of business, Autodesk provides indemnifications of varying scopes, including limited product warranties and indemnification of customers against claims of intellectual property infringement made by third parties arising from the use of its products or services. Autodesk accrues for known indemnification issues if a loss is probable and can be reasonably estimated. Historically, costs related to these indemnifications have not been significant, and because potential future costs are highly variable, Autodesk is unable to estimate the maximum potential impact of these indemnifications on its future results of operations.

In connection with the purchase, sale or license of assets or businesses with third parties, Autodesk has entered into or assumed customary indemnification agreements related to the assets or businesses purchased, sold or licensed. Historically, costs related to these indemnifications have not been significant, and because potential future costs are highly variable, Autodesk is unable to estimate the maximum potential impact of these indemnifications on its future results of operations.

As permitted under Delaware law, Autodesk has agreements whereby it indemnifies its officers and directors for certain events or occurrences while the officer or director is, or was, serving at Autodesk's request in such capacity. The maximum potential amount of future payments Autodesk could be required to make under these indemnification agreements is unlimited; however, Autodesk has directors' and officers' liability insurance coverage that is intended to reduce its financial exposure and may enable Autodesk to recover a portion of any future amounts paid. Autodesk believes the estimated fair value of these indemnification agreements in excess of applicable insurance coverage is minimal.

### *Legal Proceedings*

Autodesk is involved in a variety of claims, suits, investigations, and proceedings in the normal course of business activities including claims of alleged infringement of intellectual property rights, commercial, employment, piracy prosecution, business practices, and other matters. Autodesk routinely reviews the status of each significant matter and assesses its potential financial exposure. If the potential loss from any matter is considered probable and the amount can be reasonably estimated, Autodesk records a liability for the estimated loss. Because of inherent uncertainties related to these legal matters, Autodesk bases its loss accruals on the best information available at the time. As additional information becomes available, Autodesk reassesses its potential liability and may revise its estimates. In the Company's opinion, resolution of pending matters is not expected to have a material adverse impact on its consolidated results of operations, cash flows, or its financial position. Given the unpredictable nature of legal proceedings, there is a reasonable possibility that an unfavorable resolution of one or more such proceedings could in the future materially affect the Company's results of operations, cash flows, or financial position in a particular period, however, based on the information known by the Company as of the date of this filing and the rules and regulations applicable to the preparation of the Company's financial statements, any such amount is either immaterial or it is not possible to provide an estimated amount of any such potential loss.

## ***15. Common Stock Repurchase Program***

Autodesk has a stock repurchase program that is used to offset dilution from the issuance of stock under the Company's employee stock plans and for such other purposes as may be in the interests of Autodesk and its stockholders. Stock repurchases have the effect of returning excess cash generated from the Company's business to stockholders. During the three and nine months ended October 31, 2017, Autodesk repurchased and retired 1.0 million and 4.4 million shares at an average repurchase price of \$112.97 and \$96.39 per share, respectively. Common stock

and additional paid-in capital and accumulated deficit were reduced by \$35.6 million and \$81.7 million, respectively, during the three months ended October 31, 2017. Common stock and additional paid-in capital and accumulated deficit were reduced by \$117.6 million and \$310.3 million, respectively, during the nine months ended October 31, 2017.

At October 31, 2017, 22.1 million shares remained available for repurchase under the repurchase program approved by the Board of Directors. During the nine months ended October 31, 2017, Autodesk repurchased its common stock through open market purchases. The number of shares acquired and the timing of the purchases are based on several factors, including general market and economic conditions, the number of employee stock option exercises and stock issuances, the trading price of Autodesk common stock, cash on hand and available in the United States, cash requirements for acquisitions, and Company defined trading windows.

**16. Accumulated Other Comprehensive Loss**

Accumulated other comprehensive loss, net of taxes, consisted of the following at October 31, 2017:

	Net Unrealized Gains (Losses) on Derivative Instruments	Net Unrealized Gains (Losses) on Available-for-Sale Securities	Defined Benefit Pension Components	Foreign Currency Translation Adjustments	Total
Balances, January 31, 2017	\$ 14.6	\$ 1.5	\$ (33.8 )	\$ (160.8 )	\$(178.5)
Other comprehensive (loss) income before reclassifications	(10.2 )	0.7	(0.1 )	38.8	29.2
Pre-tax (gains) losses reclassified from accumulated other comprehensive loss	(6.9 )	—	0.1	0.1	(6.7 )
Tax effects	1.7	(0.3 )	—	(0.9 )	0.5
Net current period other comprehensive (loss) income	(15.4 )	0.4	—	38.0	23.0
Balances, October 31, 2017	\$ (0.8 )	\$ 1.9	\$ (33.8 )	\$ (122.8 )	\$(155.5)

Reclassifications related to gains and losses on available-for-sale securities are included in "Interest and other expense, net." Refer to Note 4, "Financial Instruments," for the amount and location of reclassifications related to derivative instruments. Reclassifications of the defined benefit pension components are included in the computation of net periodic benefit cost. For further information, see the "Retirement Benefit Plans" note in Part II, Item 8 of our Annual Report on Form 10-K for the fiscal year ended January 31, 2017.

**17. Net Loss Per Share**

Basic net loss per share is computed using the weighted average number of shares of common stock outstanding for the period, excluding stock options and restricted stock units. Diluted net loss per share is based upon the weighted average number of shares of common stock outstanding for the period and potentially dilutive common shares, including the effect of stock options and restricted stock units under the treasury stock method. The following table sets forth the computation of the numerators and denominators used in the basic and diluted net loss per share amounts:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
Numerator:				
Net loss	\$(119.8 )	\$(142.8 )	\$(393.4 )	\$(408.7 )
Denominator:				
Denominator for basic net loss per share—weighted average shares	219.6	222.3	219.7	223.3
Effect of dilutive securities (1)	—	—	—	—
Denominator for dilutive net loss per share	219.6	222.3	219.7	223.3
Basic net loss per share	\$(0.55 )	\$(0.64 )	\$(1.79 )	\$(1.83 )
Diluted net loss per share	\$(0.55 )	\$(0.64 )	\$(1.79 )	\$(1.83 )

The effect of dilutive securities of 4.1 million and 4.4 million shares in the three months ended October 31, 2017 and 2016, respectively, have been excluded from the calculation of diluted net loss per share as those shares would have been anti-dilutive due to the net loss (1) incurred during those periods. The effect of dilutive securities of 4.4 million and 4.0 million shares in the nine months ended October 31, 2017 and 2016, respectively, have been excluded from the calculation of diluted net loss per share as those shares would have been anti-dilutive due to the net loss incurred during those periods.



The computation of diluted net loss per share does not include shares that are anti-dilutive under the treasury stock method because their exercise prices are higher than the average market value of Autodesk's stock during the period. For both the three months ended October 31, 2017 and 2016, zero potentially anti-dilutive shares were excluded from the computation of diluted net loss per share. For the nine months ended October 31, 2017 and 2016, 0.3 million and 0.4 million potentially anti-dilutive shares were excluded from the computation of diluted net loss per share, respectively.

**18. Segment, Geographic and Product Family Information**

Autodesk reports segment information based on the “management” approach. The management approach designates the internal reporting used by management for making decisions, allocating resources and assessing performance as the source of the Company’s reportable segments. The Company's chief operating decision maker ("CODM") allocates resources and assesses the operating performance of the Company as a whole. As such, Autodesk has one segment manager (the CODM), and one operating segment.

Information regarding Autodesk’s revenue by geographic area and product family is as follows:

	<b>Three Months Ended October 31,</b>		<b>Nine Months Ended October 31,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Net revenue by geographic area:				
Americas				
U.S.	\$182.4	\$182.2	\$546.8	\$562.1
Other Americas	32.2	31.1	91.9	99.0
Total Americas	214.6	213.3	638.7	661.1
Europe, Middle East and Africa	205.4	191.0	594.4	614.1
Asia Pacific	95.3	85.3	269.7	277.0
Total net revenue	\$515.3	\$489.6	\$1,502.8	\$1,552.2
Net revenue by product family:				
Architecture, Engineering and Construction	\$215.4	\$212.3	\$628.7	\$684.4
Manufacturing	146.9	146.6	436.0	481.5
AutoCAD and AutoCAD LT	102.7	80.1	290.7	239.1
Media and Entertainment	37.7	34.2	112.1	103.6
Other	12.6	16.4	35.3	43.6
	\$515.3	\$489.6	\$1,502.8	\$1,552.2

## 19. Subsequent Events

On November 22, 2017, the Company's Board of Directors approved a restructuring plan to support the Company's strategic priorities of completing the subscription transition, digitizing the Company, and re-imagining manufacturing, construction, and production. Through the restructuring, Autodesk seeks to reduce its investments in areas not aligned with its strategic priorities, including in areas related to research and development and go-to-market activities. At the same time, Autodesk plans to further invest in strategic priority areas related to digital infrastructure, customer success, and construction. By re-balancing resources to better align with the Company's strategic priorities, Autodesk is positioning itself to meet its long-term goals. This world-wide restructuring plan includes a reduction in force that will result in the termination of approximately 13% of the Company's workforce, or approximately 1,150 employees, and the consolidation of certain leased facilities.

The Company expects to substantially complete the reduction in force and the facilities consolidation by the end of its fourth quarter of fiscal 2019 (which fiscal quarter ends January 31, 2019). The Company anticipates incurring pre-tax restructuring charges of \$135 million to \$149 million, substantially all of which would result in cash expenditures, \$124 million to \$137 million of which would be for one-time employee termination benefits, and \$11 million to \$12 million of which would be for facilities-related and other costs. The Company expects to expense these pre-tax charges in the following periods:

Fiscal Quarter	Approximate pre-tax restructuring charge (in millions)
Q4 FY18 (ending January 31, 2018)	\$91 - \$100
Q1 FY19 (ending April 30, 2018)	\$21 - \$24
Q2 FY19 (ending July 31, 2018)	\$14 - \$15
Q3 FY19 (ending October 31, 2018)	\$8 - \$9
Q4 FY19 (ending January 31, 2019)	\$1

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

*The discussion in our MD&A and elsewhere in this Form 10-Q contains trend analyses and other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are any statements that look to future events and consist of, among other things, our business strategies, including those discussed in "Strategy" and "Overview of the Three and Nine Months Ended October 31, 2017 and 2016" below, future net revenue, operating expenses, recurring revenue, annualized recurring revenue, annualized revenue per subscription, other future financial results (by product type and geography) and subscriptions, the effectiveness of our restructuring efforts, the effectiveness of our efforts to successfully manage transitions to new business models and markets, our expectations regarding the continued transition of our business model, expectations for our maintenance plan and subscription plan subscriptions, our ability to increase our subscription base, expected market trends, including the growth of cloud and mobile computing, the effect of unemployment, the availability of credit, our expectations for our restructuring, the effects of mixed global economic conditions, the effects of revenue recognition, expected trends in certain financial metrics, including expenses, the impact of acquisitions and investment activities, expectations regarding our cash needs, the effects of fluctuations in exchange rates and our hedging activities on our financial results, our ability to successfully expand adoption of our products, our ability to gain market acceptance of new businesses and sales initiatives, the impact of economic volatility and geopolitical activities in certain countries, particularly emerging economy countries, the timing and amount of purchases under our stock buy-back plan, and the effects of potential non-cash charges on our financial results and the resulting effect on our financial results. In addition, forward-looking statements also consist of statements involving expectations regarding product capability and acceptance, remediation to our controls environment, statements regarding our liquidity and short-term and long-term cash*

*requirements, as well as statements involving trend analyses and statements including such words as “may,” “believe,” “could,” “anticipate,” “would,” “might,” “plan,” “expect,” and similar expressions or the negative of these terms or other comparable terminology. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q and are subject to business and economic risks. As such, our actual results could differ materially from those set forth in the forward-looking statements as a result of a number of factors, including those set forth below in Part II, Item 1A, “Risk Factors,” and in our other reports filed with the U.S. Securities and Exchange Commission. We assume no obligation to update the forward-looking statements to reflect events that occur or circumstances that exist after the date on which they were made, except as required by law.*

**Note: A glossary of terms used in this Form 10-Q appears at the end of this Item 2.**

## Strategy

Autodesk makes software for people who make things. If you have ever driven a high-performance car, admired a towering skyscraper, used a smartphone, or watched a great film, chances are you have experienced what millions of Autodesk customers are doing with our software. Autodesk gives you the power to make anything.

Autodesk was founded during the platform transition from mainframe computers and engineering workstations to personal computers. We developed and sustained a compelling value proposition based upon desktop software for the personal computer. Just as the transition from mainframes to personal computers transformed the industry over 30 years ago, we believe our industry is undergoing a similar transition from the personal computer to cloud, mobile, and social computing. To address this transition we have accelerated our move to the cloud and mobile devices and are offering more flexible licensing. Our product subscriptions currently represent a hybrid of desktop software and cloud-based functionality, which provides a device-independent, collaborative design workflow for designers, makers, and their stakeholders. Our cloud service offerings, for example, BIM 360, Shotgun, Fusion, and AutoCAD 360 Pro, provide tools, including mobile and social capabilities, to streamline design, collaboration, building and manufacturing, and data management processes. We believe that customer adoption of these new offerings will continue to grow as customers across a range of industries begin to take advantage of the scalable computing power and flexibility provided through these new services.

Our strategy is to lead the industries we serve to cloud-based technologies and business models. This entails both a technological shift and a business model shift. As part of the transition, we discontinued selling new perpetual licenses of most individual software products effective February 1, 2016, and discontinued selling new perpetual licenses of suites while introducing industry collections effective August 1, 2016. Industry collections allow access to a broad set of products and services that exceeds those previously available in suites - simplifying the customer ability to get access to a complete set of tools for their industry. We now offer subscriptions for individual products and industry collections, cloud service offerings, and flexible enterprise business agreements (collectively referred to as "subscription plan" and previously called "new model subscription offerings"). These subscription plan offerings are designed to give our customers more flexibility with how they use our products and service offerings and to attract a broader range of customers, such as project-based users and small businesses.

With the discontinuation of the sale of most perpetual licenses, we have transitioned away from selling a mix of perpetual licenses and term-based product subscriptions toward a single subscription model. On June 15, 2017, we commenced a program to incentivize maintenance plan customers to move to subscription plan offerings. Through this program we offer discounts to those maintenance customers that move to a subscription plan, while at the same time will increase maintenance plan pricing over time for customers that remain on maintenance.

To provide more meaningful information as to the performance of different categories of product and services, we have changed our presentation of revenue and cost of revenue on our Condensed Consolidated Statements of Operations effective the first quarter of fiscal 2018. See Note 1, "Basis of Presentation," for additional information.

During the transition, revenue, margins, EPS, deferred revenue and cash flow from operations have been and will continue to be impacted as more revenue is recognized ratably rather than upfront and as subscription plan offerings generally have a lower initial purchase price.

As we progress through the business model transition, reported revenue is less relevant to measure the success of the business as perpetual license sales have been discontinued in favor of subscription offerings, which have considerably lower upfront prices. Annualized recurring revenue ("ARR") and growth of total subscriptions better reflect business momentum and provide additional transparency into the transition. To further analyze progress, we disaggregate our

growth in these metrics between the original maintenance model ("maintenance plan") and the subscription plan. Maintenance plan subscriptions peaked in the fourth quarter of our fiscal 2016 as we discontinued selling new maintenance plan subscriptions in fiscal 2017, and we expect them to decline slowly over time as maintenance plan customers continue to convert to our subscription plan.

In order to support our strategic priorities of completing the subscription transition, digitizing the Company, and re-imagining manufacturing, construction, and production, we commenced a world-wide restructuring plan in the fourth quarter of fiscal 2018. Through the restructuring, we seek to reduce our investments in areas not aligned with our strategic priorities, including in areas related to research and development and go-to-market activities. At the same time, we plan to further invest in strategic priority areas related to digital infrastructure, customer success, and construction. By re-balancing resources to better align with our strategic priorities, we are positioning ourselves to meet our long-term goals, while keeping non-GAAP spend flat in fiscal 2019. We anticipate incurring pre-tax restructuring charges of \$135 million to \$149 million, substantially all

of which would result in cash expenditures, \$124 million to \$137 million of which would be for one-time employee termination benefits, and \$11 million to \$12 million of which would be for facilities-related and other costs. If we are unable to successfully complete our reorganizational efforts we may need to undertake additional restructuring efforts, and our business and operating results may be harmed.

We sell our products and services globally, through a combination of indirect and direct channels. Our indirect channels include value added resellers, direct market resellers, distributors, computer manufacturers, and other software developers. Our direct channels include internal sales resources dedicated to selling in our largest accounts, our highly specialized products, and business transacted through our online Autodesk branded store. The following chart shows our split between indirect and direct channels for the three and nine months ended October 31, 2017 and 2016:

We anticipate that our channel mix will continue to change as we scale our online Autodesk branded store business and our largest accounts shift towards direct-only business models. However, we expect our indirect channel will continue to transact and support the majority of our customers and revenue as we move beyond the business model transition. We employ a variety of incentive programs and promotions to align our direct and indirect channels with our business strategies. In addition, we have a worldwide user group organization and we have created online user communities dedicated to the exchange of information related to the use of our products.

One of our key strategies is to maintain an open-architecture design of our software products to facilitate third-party development of complementary products and industry-specific software solutions. This approach enables customers and third parties to customize solutions for a wide variety of highly specific uses. We offer several programs that provide strategic investment funding, technological platforms, user communities, technical support, forums, and events to developers who develop add-on applications for our products. For example, we have established the Autodesk Forge program to support innovators that build solutions to facilitate the development of a single connected ecosystem for the future of how things are designed, made, and used as well as support ideas that push the boundaries of 3D printing.

In addition to the competitive advantages afforded by our technology, our large global network of distributors, resellers, third-party developers, customers, educational institutions, educators, and students is a key competitive advantage which has been cultivated over an extensive period of time. This network of partners and relationships provides us with a broad and deep reach into volume markets around the world. Our distributor and reseller network is extensive and provides our customers with

the resources to purchase, deploy, learn, and support our products quickly and easily. We have a significant number of registered third-party developers who create products that work well with our products and extend them for a variety of specialized applications.

Autodesk is committed to helping fuel a lifelong passion for design in students of all ages. We offer free educational subscriptions of Autodesk software worldwide to students, educators, and educational institutions. Through Autodesk Design Academy, we provide secondary and postsecondary school markets hundreds of standards-aligned class projects to support design-based disciplines in Science, Technology, Engineering, Digital Arts, and Math (STEAM) while using Autodesk's professional-grade 3D design, engineering and entertainment software used in industry. We also have made Autodesk Design Academy curricula available on iTunes U. Our intention is to make Autodesk software ubiquitous and the design software of choice for those poised to become the next generation of professional users.

Our strategy includes improving our product functionality and expanding our product offerings through internal development as well as through the acquisition of products, technology, and businesses. Acquisitions often increase the speed at which we can deliver product functionality to our customers; however, they entail cost and integration challenges and may, in certain instances, negatively impact our operating margins. We continually review these trade-offs in making decisions regarding acquisitions. We currently anticipate that we will continue to acquire products, technology, and businesses as compelling opportunities become available.

Our strategy depends upon a number of assumptions to successfully make the transition toward new cloud and mobile platforms, including: the related technology and business model shifts; making our technology available to mainstream markets; leveraging our large global network of distributors, resellers, third-party developers, customers, educational institutions, and students; improving the performance and functionality of our products; and adequately protecting our intellectual property. If the outcome of any of these assumptions differs from our expectations, we may not be able to implement our strategy, which could potentially adversely affect our business. For further discussion regarding these and related risks, see Part II, Item 1A, "Risk Factors."

### **Critical Accounting Policies and Estimates**

Our Condensed Consolidated Financial Statements are prepared in conformity with U.S. generally accepted accounting principles ("GAAP"). In preparing our Condensed Consolidated Financial Statements, we make assumptions, judgments and estimates that can have a significant impact on amounts reported in our Condensed Consolidated Financial Statements. We base our assumptions, judgments and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. We regularly reevaluate our assumptions, judgments and estimates. Our significant accounting policies are described in Note 1, "Business and Summary of Significant Accounting Policies," in the Notes to Consolidated Financial Statements in our Form 10-K for the fiscal year ended January 31, 2017. In addition, we highlighted those policies that involve a higher degree of judgment and complexity with further discussion in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Form 10-K. There have been no material changes to our critical accounting policies and estimates during the three months ended October 31, 2017 as compared to the those disclosed in our Form 10-K for the fiscal year ended January 31, 2017. We believe these policies are the most critical to aid in fully understanding and evaluating our financial condition and results of operations.



**Overview of the Three and Nine Months Ended October 31, 2017 and 2016**

<i>(in millions)</i>	Three Months Ended October 31, 2017	As a % of Net Revenue		Change compared to prior fiscal year			Three Months Ended October 31, 2016	As a % of Net Revenue	
		\$	%	\$	%	%			
Net Revenue	\$515.3	100	%	\$ 25.7	5	%	\$489.6	100	%
Cost of revenue	77.5	15	%	(4.0 )	(5 )	%	81.5	17	%
Gross Profit	437.8	85	%	29.7	7	%	408.1	83	%
Operating expenses	537.8	104	%	9.8	2	%	528.0	108	%
Loss from operations	\$(100.0 )	(19 )	%	\$ 19.9	17	%	\$(119.9 )	(24 )	%

  

	Nine Months Ended October 31, 2017	As a % of Net Revenue		Change compared to prior fiscal year			Nine Months Ended October 31, 2016	As a % of Net Revenue	
		\$	%	\$	%	%			
Net Revenue	\$1,502.8	100	%	\$ (49.4 )	(3 )	%	\$1,552.2	100	%
Cost of revenue	230.3	15	%	(28.7 )	(11 )	%	259.0	17	%
Gross Profit	1,272.5	85	%	(20.7 )	(2 )	%	1,293.2	83	%
Operating expenses	1,599.7	106	%	(26.0 )	(2 )	%	1,625.7	105	%
Loss from operations	\$(327.2 )	(22 )	%	\$ 5.3	2	%	\$(332.5 )	(21 )	%

We are undergoing a business model transition in which we have discontinued selling new perpetual licenses for most of our products in favor of subscriptions. During the transition, revenue, margins, EPS, deferred revenue and cash flow from operations have been and will continue to be impacted as more revenue is recognized ratably rather than upfront and as subscription plan offerings generally have a lower initial purchase price.

*Revenue Analysis*

Net revenue increased during the three months ended October 31, 2017, as compared to the same period in the prior fiscal year, primarily due to a 106% increase in subscription revenue, partially offset by a 62% decrease in license and other revenue. Net revenue decreased during the nine months ended October 31, 2017, as compared to the same period in the prior fiscal year, primarily due to a 68% decrease in license and other revenue, partially offset by a 100% increase in subscription revenue.

The increases in the respective three and nine months ended October 31, 2017 within subscription revenue were driven by increases in the number of subscriptions across all subscription plan types, primarily led by product subscription. The decreases in license and other revenue in the respective three and nine months ended October 31, 2017 were primarily a result of the discontinuation of new perpetual licenses of suites effective August 1, 2016.

Further discussion of the drivers of these results are discussed below under the heading “Results of Operations.”

We rely significantly upon major distributors and resellers in both the U.S. and international regions, including Tech Data Corporation and its global affiliates (collectively, “Tech Data”). Total sales to Tech Data accounted for 32% and 31% of Autodesk’s total net revenue for the three and nine months ended October 31, 2017, respectively. Total sales to Tech Data accounted for 31% and 30% of Autodesk’s total net revenue for the three and nine months ended October 31, 2016, respectively. Our customers through Tech Data are the resellers and end users who purchase our software licenses and services. Should any of our agreements with Tech Data be terminated for any reason, we believe the resellers and end users who currently purchase our products through Tech Data would be able to continue to do so under substantially the same terms from one of our many other distributors without substantial disruption to our

revenue. Consequently, we believe our business is not substantially dependent on Tech Data.

*Operating Margin Analysis*

Our operating margin increased to (19)% for the three months ended October 31, 2017 from (24)% for the three months ended October 31, 2016. The increase in operating margin was primarily driven by an increase in revenue partially offset by an increase in total spend during the three months ended October 31, 2017. Our operating margin decreased to (22)% for the nine months ended October 31, 2017 from (21)% for the nine months ended October 31, 2016, primarily driven by a decrease in revenue, partially offset by a decrease in total spend during the nine months ended October 31, 2017. Further discussion regarding the spend drivers are discussed below under the heading “Results of Operations.” In addition, during November

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2017, our Board of Directors approved a world-wide restructuring plan that will result in material restructuring charges or other non-recurring charges that will have the effect of reducing our operating margins and increasing our net loss for the remainder of fiscal 2018 and into fiscal 2019 on a GAAP basis.

### *Business Model Transition Metrics*

In order to help better understand our financial performance during and after the business model transition, we use several metrics including recurring revenue, total subscriptions, ARR, and annualized revenue per subscription ("ARPS"). ARR, ARPS, and recurring revenue are performance metrics and should be viewed independently of revenue and deferred revenue as ARR, ARPS, and recurring revenue are not intended to be combined with those items. Our determination and presentation may differ from that of other companies. Please refer to the Glossary of Terms for the definitions of these metrics.

The following table outlines our recurring revenue metric for the three and nine months ended October 31, 2017 and 2016:

<i>(In millions, except percentage data)</i>	<b>Three Months Ended October 31, 2017</b>	<b>Change compared to prior fiscal year</b>			<b>Three Months Ended October 31, 2016 (1)</b>
		<b>\$</b>	<b>%</b>		
Recurring Revenue (2)	\$475.5	\$ 91.5	24 %		\$384.0
As a percentage of net revenue	92	% N/A	N/A		78 %
	<b>Nine Months Ended October 31, 2017</b>	<b>Change compared to prior fiscal year</b>			<b>Nine Months Ended October 31, 2016 (1)</b>
		<b>\$</b>	<b>%</b>		
Recurring Revenue (2)	\$1,368.8	\$ 238.4	21 %		\$1,130.4
As a percentage of net revenue	91	% N/A	N/A		73 %

(1) Prior periods have been adjusted to conform with the current period's presentation.

(2) The acquisition of a business may cause variability in the comparison of recurring revenue in this table above and recurring revenue derived from the revenue reported in the Condensed Consolidated Statement of Operations.

The following table outlines our ARR, subscriptions and ARPS metrics as of October 31, 2017, July 31, 2017, and January 31, 2017:

	Balances, October 31, 2017	Change compared to prior quarter end		Balances, July 31, 2017	Balances, October 31, 2017	Change compared to prior fiscal year end		Balances, January 31, 2017 (1)
		\$	%			\$	%	
<b>ARR</b> (in millions)								
Subscription plan ARR	\$924.0	\$140.3	18 %	\$783.7	\$924.0	\$352.6	62 %	\$571.4
Maintenance plan ARR	\$977.8	\$(68.2)	(7)%	\$1,046.0	\$977.8	\$(90.2)	(8)%	\$1,068.0
Total ARR (2)	\$1,901.8	\$72.1	4 %	\$1,829.7	\$1,901.8	\$262.4	16 %	\$1,639.4

**Number of Subscriptions** (in thousands)

Subscription plan	1,896.0	306.8	19 %	1,589.2	1,896.0	808.9	74 %	1,087.1
Maintenance plan	1,693.2	(160.8)	(9)%	1,854.0	1,693.2	(324.8)	(16)%	2,018.0
Total subscriptions	3,589.2	146.0	4 %	3,443.2	3,589.2	484.1	16 %	3,105.1

**ARPS** (ARR divided by number of Subscriptions)

Subscription plan ARPS	\$487	\$(6)	(1)%	\$493	\$487	\$(39)	(7)%	\$526
Maintenance plan ARPS	\$577	\$13	2 %	\$564	\$577	\$48	9 %	\$529
Total ARPS (3)	\$530	\$(1)	— %	\$531	\$530	\$2	— %	\$528

(1) Prior periods have been adjusted to conform with the current period's presentation.

(2) The acquisition of a business may cause variability in the comparison of ARR reported in this table above and ARR derived from the revenue reported in the Condensed Consolidated Statement of Operations.

There are small variances between ARR and total subscriptions due in part to the inherent limitation with collecting all subscriptions information. For example, Buzzsaw and Constructware are included with ARR but not in total subscriptions due to these inherent limitations. We do not view these variances as meaningful to amounts or quarterly comparisons presented here for ARPS.

Total ARR increased 4%, as of October 31, 2017 as compared to the three months ended July 31, 2017, and 16%, as compared to the end of fiscal 2017, primarily due to a 18% and 62% increase, in the respective periods, in subscription plan ARR driven by growth in all subscription plan types, led by product subscription. The increase was partially offset by a 7% and 8% decrease, in the respective periods, in maintenance plan ARR driven by the migration from maintenance plan subscriptions to subscription plan subscriptions.

Subscription plan subscriptions increased 19% or approximately 306,800 as compared to the previous quarter and 74% or approximately 808,900 as compared to the end of fiscal 2017, driven by growth in all subscription plan types, led by new product subscriptions. Subscription plan subscriptions benefited from approximately 110,300 and 173,500 maintenance subscribers that were converted to product subscription under the maintenance-to-subscription program during the three and nine months ended October 31, 2017, respectively.

Maintenance plan subscriptions decreased 9% or approximately 160,800 from the previous quarter and 16% or approximately 324,800 from the end of fiscal 2017, primarily as a result of the discontinuation of new maintenance agreement sales as well as the maintenance-to-subscription program in which approximately 110,300 and 173,500 maintenance plan subscriptions converted to product subscription during the three and nine months ended October 31, 2017, respectively. The net decrease is expected and we expect to see ongoing declines in maintenance plan subscriptions going forward as part of the business model transition. The rate of decline will vary based on the number of subscriptions subject to renewal, the renewal rate, and our ability to incentivize customers to switch over to

enterprise business agreements ("EBAs") or product subscriptions.

ARPS as of October 31, 2017 was \$530, a slight decrease compared to the previous quarter primarily driven by a decrease in subscription plan ARPS. The decrease in subscription plan ARPS was driven by a decrease in both EBA and cloud subscription ARPS, partially offset by a growth in product subscription ARPS. Offsetting the decline in subscription plan ARPS was growth in maintenance plan ARPS driven by the maintenance-to-subscription program.

ARPS had a slight increase compared to the end of fiscal 2017 due to an increase in maintenance plan ARPS primarily driven by the maintenance-to-subscription program. ARPS also benefited from an increase in product subscription ARPS, partially offset by decreases in both EBAs and cloud service offerings ARPS.

When adjusted for the impact of the maintenance-to-subscription program, subscription plan ARPS and maintenance plan ARPS would have been \$496 and \$561, respectively.

Our ARPS is currently, and will continue to be, affected by various factors including subscription term-length, migration from maintenance plan subscriptions, geography and product mix, promotions, sales linearity within a quarter, pricing changes, and foreign currency. We expect to see ARPS fluctuate up or down on a quarterly basis. As we progress on our business model transition, we expect all of the impacts of these factors to start to stabilize.

### Foreign Currency Analysis

We generate a significant amount of our revenue in the United States, Germany, Japan, the United Kingdom, and Canada.

The following table shows the impact of foreign exchanges rate changes on our net revenue and total spend:

	Three Months Ended October 31, 2017				Nine Months Ended October 31, 2017			
	Constant Currency change compared to prior fiscal year (2)	Percent change	Positive/Negative/Neutral impact from foreign exchange rate changes		Constant Currency change compared to prior fiscal year (2)	Percent change	Positive/Negative/Neutral impact from foreign exchange rate changes	
Revenue	5%	6%	Negative		(3)%	(2)%	Negative	
Spend (1)	1%	—%	Negative		(3)%	(3)%	Neutral	

(1) Our total spend is defined as cost of revenue plus operating expenses.

(2) Please refer to the Glossary of Terms for the definitions of our constant currency growth rates.

Changes in the value of the U.S. dollar may have a significant effect on net revenue, total spend, and income (loss) from operations in future periods. We use foreign currency contracts to reduce the exchange rate effect on a portion of the net revenue of certain anticipated transactions but do not attempt to completely mitigate the impact of fluctuations of such foreign currency against the U.S. dollar.

### Deferred Revenue and Unbilled Deferred Revenue

Our deferred revenue balance at October 31, 2017 was \$1.76 billion and primarily relates to subscription and maintenance agreements invoiced for which the revenue has not yet been recognized but will be recognized as revenue ratably over the life of the contracts. The term of our subscription contracts is typically between one and three years.

We define unbilled deferred revenue as contractually stated or committed orders under multi-year billing plans for subscription, services, license and maintenance for which the associated revenue has not been recognized and the customer has not been invoiced. Unbilled deferred revenue is not included on our Condensed Consolidated Balance Sheet until invoiced to the customer.

<i>(in millions)</i>	<b>Nine Months Ended October 31, 2017</b>
Deferred revenue	\$ 1,763.9
Unbilled deferred revenue (1)	147.9
<b>Total</b>	<b>\$ 1,911.8</b>

<sup>(1)</sup> This is our first year presenting this metric and we are not able to provide historical information at this time. Comparative information will not be available until our first quarter of fiscal 2019.

We expect that the amount of unbilled deferred revenue and deferred revenue will change from quarter to quarter for several reasons, including the specific timing, duration and size of large customer subscription and support agreements, varying billing cycles of such agreements, the specific timing of customer renewals, foreign currency fluctuations and the timing of when unbilled deferred revenue is recognized as revenue.

#### *Balance Sheet and Cash Flow Items*

At October 31, 2017, we had \$1.72 billion in cash, cash equivalents and marketable securities. This amount includes the aggregate net proceeds of \$492.0 million, after deducting the underwriting discounts and related offering expenses, from our June 2017 registered underwritten public offering of \$500.0 million aggregate principal amount of 3.5% notes due June 15, 2027. On July 27, 2017, we redeemed in full \$400.0 million in aggregate principal amount of outstanding 1.95% senior notes due December 15, 2017. To redeem the notes, we used a portion of the proceeds of the 2017 notes to pay a redemption price of approximately \$400.9 million, plus accrued and unpaid interest from June 15, 2017 to, but excluding, the redemption date. Total cash repayment was \$401.8 million.

We completed the nine months ended October 31, 2017 with lower accounts receivable and deferred revenue balances as compared to the fiscal year ended January 31, 2017.

Our cash flow used in operations was \$78.4 million, a decrease of 151% for the nine months ended October 31, 2017 compared to \$154.1 million of cash flow provided by operations in the nine months ended October 31, 2016.

Further discussion regarding the balance sheet and cash flow activities are discussed below under the heading "Liquidity and Capital Resources."

### **Results of Operations**

#### *Net Revenue*

##### *Income Statement Presentation*

Maintenance revenue consists of renewal fees for existing maintenance plan agreements that were initially purchased with a perpetual software license. Under our maintenance plan, customers are eligible to receive unspecified upgrades, when and if available, and technical support. We recognize maintenance revenue over the term of the agreements, generally between one and three years. Subscription revenue consists of our term-based product subscriptions, cloud service offerings, and flexible enterprise business arrangements. Note that with the change in our presentation of revenue in our condensed consolidated statement of operations in the first quarter of fiscal 2018, our term-based product subscriptions and flexible enterprise business arrangements are classified and presented in a single line item. Revenue from these arrangements is recognized ratably over the contract term. Revenue for our cloud service offerings is recognized ratably over the contract term commencing with the date our service is made available to customers.

License and other revenue consists of (1) perpetual license revenue and (2) other revenue. Perpetual license revenue includes software license revenue from the sale of perpetual licenses and Creative Finishing. Other revenue includes revenue such as consulting and training, and is recognized over time as the services are performed.



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<i>(in millions)</i>	Three Months Ended October 31, 2017	Change compared to prior fiscal year		Three Months Ended October 31, 2016	Management Comments
Net Revenue:					
Maintenance (1)	\$ 244.4	\$ (28.8 )	(11 )%	\$ 273.2	The decrease in maintenance revenue is driven by the discontinuation of new maintenance agreements. We expect maintenance revenue will slowly decline; however, the rate of decline will vary based on the number of renewals, the renewal rate, and our ability to incentivize maintenance plan customers to switch over to subscription plan offerings.
Subscription (1)	231.1	118.7	106 %	112.4	The increase in subscription revenue is primarily a result of the business model transition. We saw growth across all subscription plan types, led by product subscriptions and enterprise business agreements.
Total maintenance and subscription revenue	475.5	89.9	23 %	385.6	
License and other (1) (2)	39.8	(64.2 )	(62 )%	104.0	The decrease in license revenue is driven by the business model transition and the discontinuation of perpetual suite license sales in fiscal 2017, resulting in a decrease in revenue from perpetual licenses.
	\$ 515.3	\$ 25.7	5 %	\$ 489.6	
	Nine Months Ended October 31, 2017	Change compared to prior fiscal year		Nine Months Ended October 31, 2016	Management Comments
Net Revenue:					
Maintenance (1)	\$ 769.8	\$ (65.3 )	(8 )%	\$ 835.1	The decrease in maintenance revenue is driven by the discontinuation of new maintenance agreements. We expect maintenance revenue will slowly decline; however, the rate of decline will vary based on the number of renewals, the renewal rate, and our ability to incentivize maintenance plan customers to switch over to subscription plan offerings.
Subscription (1)	600.6	300.9	100 %	299.7	The increase in subscription revenue is primarily a result of the business model transition. We saw growth across all subscription plan types, led by product subscriptions and enterprise business agreements.
Total maintenance and subscription revenue	1,370.4	235.6	21 %	1,134.8	
License and other (1) (2)	132.4	(285.0 )	(68 )%	417.4	The decrease in license revenue is driven by the business model transition, and the discontinuation of suite license sales, resulting in a decrease in revenue from perpetual license.
	\$ 1,502.8	\$ (49.4 )	(3 )%	\$ 1,552.2	

(1) Prior periods have been adjusted to conform with current period's presentation. See Note 1, "Basis of Presentation", of our condensed consolidated financial statements for additional information.

(2) Within license and other revenue, there was a 16% decrease and 19% decrease in other revenue during the three and nine months ended October 31, 2017, respectively, as compared to the same periods in the prior fiscal year. Other revenue represented 5% of total net revenue for both the three and nine months ended October 31, 2017 as compared to 6% for both the three and nine months ended October 31, 2016, respectively.

*Net Revenue by Product Family*

Our product offerings are focused in four primary product families: AEC, MFG, ACAD, and M&E. During the business model transition, revenue has been and will be negatively impacted as more revenue is recognized ratably rather than upfront and as new product offerings generally have a lower initial purchase price. As noted in the discussion under the heading "Strategy," we discontinued selling new perpetual licenses of most individual software products in fiscal 2017 and we discontinued selling new perpetual licenses of suites as of August 1, 2016 with the introduction of industry collections. These broad impacts are reflected in the summary below.

<i>(in millions)</i>	<b>Three Months Ended October 31, 2017</b>	<b>Change compared to prior fiscal year</b>		<b>Three Months Ended October 31, 2016</b>	<b>Management Comments</b>
	<b>\$</b>		<b>%</b>		
<b>Net Revenue by Product Family:</b>					
Architecture, Engineering and Construction ("AEC")	\$ 215.4	\$ 3.1	1 %	\$ 212.3	Driven by an increase in revenue from AEC EBAs, partially offset by a net decrease in AEC collections and legacy suites.
Manufacturing ("MFG")	146.9	0.3	— %	146.6	Driven by an increase in revenue from MFG EBAs, partially offset by a net decrease in MFG collections and legacy suites.
AutoCAD and AutoCAD LT ("ACAD")	102.7	22.6	28 %	80.1	Driven by increases in both AutoCAD LT and AutoCAD.
Media and Entertainment ("M&E")	37.7	3.5	10 %	34.2	Driven by an increase in Animation, partially offset by a decrease in Creative Finishing.
Other	12.6	(3.8 )	(23 )%	16.4	
	<b>\$ 515.3</b>	<b>\$ 25.7</b>	<b>5 %</b>	<b>\$ 489.6</b>	
<b>Net Revenue by Product Family:</b>					
Architecture, Engineering and Construction ("AEC")	\$ 628.7	\$ (55.7 )	(8 )%	\$ 684.4	Driven by a net decrease in AEC collections and legacy suites, partially offset by an increase in revenue from AEC EBAs.
Manufacturing ("MFG")	436.0	(45.5 )	(9 )%	481.5	Driven by a net decrease in MFG collections and legacy suites, partially offset by an increase in revenue from MFG EBAs.
AutoCAD and AutoCAD LT ("ACAD")	290.7	51.6	22 %	239.1	Driven by increases in both AutoCAD LT and AutoCAD.
Media and Entertainment ("M&E")	112.1	8.5	8 %	103.6	Driven by an increase in Animation, partially offset by a decrease in Creative Finishing.
Other	35.3	(8.3 )	(19 )%	43.6	
	<b>\$ 1,502.8</b>	<b>\$ (49.4 )</b>	<b>(3 )%</b>	<b>\$ 1,552.2</b>	

*Net Revenue by Geographic Area*

<i>(in millions)</i>	<b>Three Months Ended October 31, 2017</b>	<b>Change compared to prior fiscal year</b>		<b>Constant Currency Change compared to prior fiscal year</b>	<b>Three Months Ended October 31, 2016</b>
		\$	%	%	
Net Revenue:					
Americas					
U.S.	\$ 182.4	\$ 0.2	—	%	\$ 182.2
Other Americas	32.2	1.1	4	%	31.1
Total Americas	214.6	1.3	1	%	213.3
Europe, Middle East and Africa ("EMEA")	205.4	14.4	8	%	191.0
Asia Pacific ("APAC")	95.3	10.0	12	%	85.3
Total Net Revenue (1)	\$ 515.3	\$ 25.7	5	%	\$ 489.6
Emerging Economies	\$ 57.8	\$ 1.2	2	%	\$ 56.6

<i>(in millions)</i>	<b>Nine Months Ended October 31, 2017</b>	<b>Change compared to prior fiscal year</b>		<b>Constant currency change compared to prior fiscal year</b>	<b>Nine Months Ended October 31, 2016</b>
		\$	%	%	
Net Revenue:					
Americas					
U.S.	\$ 546.8	\$(15.3)	(3)	%	\$ 562.1
Other Americas	91.9	(7.1)	(7)	%	99.0
Total Americas	638.7	(22.4)	(3)	%	661.1
EMEA	594.4	(19.7)	(3)	%	614.1
APAC	269.7	(7.3)	(3)	%	277.0
Total Net Revenue	\$ 1,502.8	\$(49.4)	(3)	%	\$ 1,552.2
Emerging Economies	\$ 162.5	\$(11.7)	(7)	%	\$ 174.2

(1) Totals may not sum due to rounding.

\* Constant currency data not provided at this level.

We believe that international revenue will continue to comprise a majority of our net revenue. Unfavorable economic conditions in the countries that contribute a significant portion of our net revenue, including in emerging economies such as Brazil, Russia, India, and China, may have an adverse effect on our business in those countries and our overall financial performance. Changes in the value of the U.S. dollar relative to other currencies have significantly affected, and could continue to significantly affect, our financial results for a given period even though we hedge a portion of our current and projected revenue. Increases to the levels of political and economic unpredictability in the global market may impact our future financial results. Additionally, during the business model transition, revenue has been and will be negatively impacted as more revenue is recognized ratably rather than upfront and as new product offerings generally have a lower initial purchase price. This transition has a particular impact to emerging economies as sales of perpetual licenses have historically comprised a greater percentage of total emerging economy sales in comparison to mature markets.

*Cost of Revenue and Operating Expenses*

Cost of maintenance and subscription revenue includes the labor costs of providing product support to our maintenance and subscription customers, including allocated IT and facilities costs, shipping and handling costs, professional services fees related to operating our network and cloud infrastructure, royalties, depreciation expense and operating lease payments associated with computer equipment, data center costs, salaries, related expenses of network operations, and stock-based compensation expense.

Cost of license and other revenue includes labor costs associated with product setup and fulfillment for perpetual licenses and costs of consulting and training services contracts and collaborative project management services contracts. Cost of license

and other revenue also includes stock-based compensation expense, direct material and overhead charges, allocated IT and facilities costs, professional services fees and royalties. Direct material and overhead charges include the cost associated with electronic and physical fulfillment.

Cost of revenue, at least over the near term, is affected by the volume and mix of product sales, fluctuations in consulting costs, amortization of developed technology, new customer support offerings, royalty rates for licensed technology embedded in our products and employee stock-based compensation expense.

Marketing and sales expenses include salaries, bonuses, benefits and stock-based compensation expense for our marketing and sales employees, the expense of travel, entertainment and training for such personnel, the costs of programs aimed at increasing revenue, such as advertising, trade shows and expositions, and various sales and promotional programs. Marketing and sales expenses also include labor costs associated with sales and order management, sales and dealer commissions, payment processing fees, the cost of supplies and equipment, gains and losses on our operating expense cash flow hedges, and allocated IT and facilities costs.

Research and development expenses, which are expensed as incurred, consist primarily of salaries, bonuses, benefits and stock-based compensation expense for research and development employees, and the expense of travel, entertainment and training for such personnel, professional services such as fees paid to software development firms and independent contractors, gains and losses on our operating expense cash flow hedges, and allocated IT and facilities costs.

General and administrative expenses include salaries, bonuses, transition costs, benefits and stock-based compensation expense for our CEO, finance, human resources and legal employees, as well as professional fees for legal and accounting services, certain foreign business taxes, gains and losses on our operating expense cash flow hedges, expense of travel, entertainment and training, net IT and facilities costs, and the cost of supplies and equipment.

<i>(in millions)</i>	Three Months Ended October 31, 2017	Change compared to prior fiscal year \$ %	Three Months Ended October 31, 2016	Management comments
Cost of revenue:				
Maintenance and subscription (1)	\$ 53.9	\$7.1 15 %	\$ 46.8	Up due to an increase in employee-related costs driven by increased headcount associated with maintenance and subscription services in support of the business model transition
License and other (1)	19.6	(4.7 ) (19 )%	24.3	Down due to lower employee-related costs from reduced headcount associated with license and other revenue products and services as a result of our move to a subscription based business model
Amortization of developed technology (1)	4.0	(6.4 ) (62 )%	10.4	Down as previously acquired developed technologies continue to become fully amortized and there were no acquisitions in the current period
Total cost of revenue	\$ 77.5	\$(4.0 ) (5 )%	\$ 81.5	
Operating expenses:				
Marketing and sales	\$ 272.5	\$17.5 7 %	\$ 255.0	Up due to an increase in employee-related costs as a result of increased headcount as well as an increase in stock-based compensation expense due to a higher fair value of awards granted
Research and development	191.8	(0.8 ) — %	192.6	Down due to a decrease in employee-related costs and in stock-based compensation expense as a result of reduced headcount
General and administrative	68.8	(1.6 ) (2 )%	70.4	Down due to a decrease in professional fees, partially offset by an increase in stock-based compensation expense due to an increase in the fair value of awards granted
Amortization of purchased intangibles	4.7	(2.1 ) (31 )%	6.8	Down as previously acquired intangible assets continue to become fully amortized and there were no acquisitions in the current period

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Restructuring charges and other facility exit costs, net (2) (3)	—	(3.2 )	(100)%	3.2	Down as the majority of the Fiscal 2017 Plan was recognized during the first half of fiscal 2017
Total operating expenses	\$ 537.8	\$9.8	2	%	\$ 528.0

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	Nine Months Ended October 31, 2017	Change compared to prior fiscal year		Nine Months Ended October 31, 2016	Management comments
	\$		%		
Cost of revenue:					
Maintenance and subscription (1)	\$ 161.6	\$ 21.4	15 %	\$ 140.2	Up due to an increase in employee-related costs driven by increased headcount associated with maintenance and subscription services in support of the business model transition
License and other (1)	56.0	(30.8 )	(35 )%	86.8	Down due to lower employee-related costs from reduced headcount associated with license and other revenue products and services as a result of the business model transition
Amortization of developed technology (1)	12.7	(19.3 )	(60 )%	32.0	Down as previously acquired developed technologies continue to become fully amortized and there were no acquisitions in the current period
Total cost of revenue	\$ 230.3	\$ (28.7 )	(11 )%	\$ 259.0	
Operating expenses:					
Marketing and sales	\$ 785.8	\$ 46.9	6 %	\$ 738.9	Driven by employee-related costs on increased headcount and increased stock-based compensation expense due to an increase in fair value of awards granted, partially offset by a decrease in advertising and promotional costs.
Research and development	573.3	(5.8 )	(1 )%	579.1	Driven by a decrease in employee-related costs on lower headcount
General and administrative	225.1	11.4	5 %	213.7	Driven by costs associated with the CEO transition and an increase in stock-based compensation expense on a higher fair value of awards granted, partially offset by a decrease in professional fees
Amortization of purchased intangibles	15.3	(7.2 )	(32 )%	22.5	Down as previously acquired intangible assets continue to become fully amortized and there were no acquisitions in the current period
Restructuring charges and other facility exit costs, net (2) (3)	0.2	(71.3 )	(100 )%	71.5	Down as the majority of the Fiscal 2017 Plan was recognized during fiscal 2017
Total operating expenses	\$ 1,599.7	\$ (26.0 )	(2 )%	\$ 1,625.7	

(1) Prior periods have been adjusted to conform with current period's presentation. See Note 1, "Basis of Presentation," of our condensed consolidated financial statements for additional information.

(2) See Note 13, "Restructuring charges and other facility exit costs, net" in the Notes to Condensed Consolidated Financial Statements for additional information.

On November 27, 2017, our Board of Directors approved a world-wide restructuring plan that includes a reduction in force that will result in the termination of approximately 13% of the Company's workforce, or approximately 1,150 employees, and the consolidation of certain leased facilities. See Note 19, "Subsequent Events," for further discussion regarding the anticipated amount and timing of the expenditures related to this action.

The following table highlights our expectation for the absolute dollar change and percent of revenue change between the fourth quarter of fiscal 2018, as compared to the fourth quarter of fiscal 2017:

	Absolute dollar impact	Percent of net revenue impact
Cost of Revenue	Decrease	Decrease
Marketing and sales	Increase	Decrease
Research and development	Increase	Decrease
General and administrative	Decrease	Decrease
Amortization of purchased intangibles	Decrease	Decrease





*Interest and Other Expense, Net*

The following table sets forth the components of interest and other expense, net:

<i>(in millions)</i>	<b>Three Months Ended October 31,</b>		<b>Nine Months Ended October 31,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Interest and investment expense, net	\$(9.2 )	\$(9.7)	\$(26.1)	\$(22.5)
(Loss) gain on foreign currency	(0.5 )	0.4	(1.2 )	(2.7 )
(Loss) gain on strategic investments and dispositions	(1.7 )	0.4	(9.5 )	0.6
Other income (expense)	0.2	(0.5 )	5.0	1.5
Interest and other expense, net	\$(11.2)	\$(9.4)	\$(31.8)	\$(23.1)

Interest and other expense, net increased \$1.8 million during the three months ended October 31, 2017, as compared to the same period in the prior fiscal year, primarily due to impairment losses on certain of our privately-held strategic investments.

Interest and other expense, net increased \$8.7 million during the nine months ended October 31, 2017, as compared to the same period in the prior fiscal year, primarily due to non-recurring realized losses on certain dispositions and impairment losses on certain of our privately-held strategic investments.

Interest expense and investment income fluctuates based on average cash, marketable securities and debt balances, average maturities and interest rates.

Gains and losses on foreign currency are primarily due to the impact of re-measuring foreign currency transactions and net monetary assets into the functional currency of the corresponding entity. The amount of the gain or loss on foreign currency is driven by the volume of foreign currency transactions and the foreign currency exchange rates for the period.

*Provision for Income Taxes*

We account for income taxes and the related accounts under the liability method. Deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted rates expected to be in effect during the year in which the basis differences reverse.

Income tax expense was \$8.6 million and \$13.5 million for the three months ended October 31, 2017 and 2016, respectively. Income tax expense was \$34.4 million and \$53.1 million for the nine months ended October 31, 2017 and 2016, respectively. Income tax expense consists primarily of foreign taxes, U.S. tax expense related to indefinite-lived intangibles, and withholding taxes.

A valuation allowance is recorded to reduce deferred tax assets when management cannot conclude that it is more likely than not that the net deferred tax asset will be recovered. The valuation allowance is determined by assessing both positive and negative evidence to determine whether it is more likely than not that deferred tax assets are recoverable; such assessment is required on a jurisdiction-by-jurisdiction basis. Significant judgment is required in determining whether the valuation allowance should be recorded against deferred tax assets. In assessing the need for a valuation allowance, we consider all available evidence including past operating results and estimates of future taxable income. Beginning in the second quarter of fiscal 2016, we considered recent cumulative losses in the United States arising from the Company's business model transition as a significant source of negative evidence. Considering this negative evidence and the absence of sufficient positive objective evidence that we would generate sufficient

taxable income in our United States tax jurisdiction to realize the deferred tax assets, we determined that it was not more likely than not that the Company would realize the U.S. federal and state deferred tax assets and recorded a full valuation allowance. As we continually strive to optimize our overall business model, tax planning strategies may become feasible whereby management may determine that it is more likely than not that the federal and state deferred tax assets will be realized; as a result, we will continue to evaluate the realizability of our net deferred tax assets each quarter, both in the U.S. and in foreign jurisdictions, based on all available evidence, both positive and negative.

As of October 31, 2017, we had \$291.4 million of gross unrecognized tax benefits, excluding interest, of which approximately \$277.4 million represents the amount of unrecognized tax benefits that would impact the effective tax rate, if recognized. However, this rate impact would be \$30.8 million to the extent that recognition of unrecognized tax benefits

currently presented as a reduction of deferred tax assets would increase the valuation allowance. It is possible that the amount of unrecognized tax benefits will change in the next twelve months; however, an estimate of the range of the possible change cannot be made at this time.

Our future effective tax rate may be materially impacted by the amount of benefits and charges from tax amounts associated with our foreign earnings that are taxed at rates different from the federal statutory rate, research credits, state income taxes, the tax impact of stock-based compensation, accounting for uncertain tax positions, business combinations, U.S. Manufacturer's deduction, closure of statute of limitations or settlement of tax audits, changes in valuation allowances and changes in tax laws including possible U.S. tax law changes that, if enacted, could significantly impact how U.S. multinational companies are taxed on foreign subsidiary earnings. A significant amount of our earnings is generated by our Europe and APAC subsidiaries. Our future effective tax rates may be adversely affected to the extent earnings are lower than anticipated in countries where we have lower statutory tax rates or we repatriate certain foreign earnings on which U.S. taxes have not previously been provided.

The Internal Revenue Service has started an examination of the Company's U.S. consolidated federal income tax returns for fiscal years 2014 and 2015. While it is possible that the Company's tax positions may be challenged, the Company believes its positions are consistent with the tax law, and the balance sheet reflects appropriate liabilities for uncertain federal tax positions for the years being examined.

### Other Financial Information

In addition to our results determined under GAAP discussed above, we believe the following non-GAAP measures are useful to investors in evaluating our operating performance. For the three and nine months ended October 31, 2017 and 2016, our gross profit, gross margin, loss from operations, operating margin, net loss, diluted net loss per share and diluted shares used in per share calculation on a GAAP and non-GAAP basis were as follows (in millions except for gross margin, operating margin, and per share data):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
	<b>(Unaudited)</b>			
Gross profit	\$437.8	\$408.1	\$1,272.5	\$1,293.2
Non-GAAP gross profit	\$445.7	\$422.0	\$1,296.8	\$1,335.5
Gross margin	85	% 83	% 85	% 83
Non-GAAP gross margin	86	% 86	% 86	% 86
Loss from operations	\$(100.0)	\$(119.9)	\$(327.2 )	\$(332.5 )
Non-GAAP loss from operations	\$(26.2 )	\$(42.9 )	\$(94.5 )	\$(44.0 )
Operating margin	(19 )%	(24 )%	(22 )%	(21 )%
Non-GAAP operating margin	(5 )%	(9 )%	(6 )%	(3 )%
Net loss	\$(119.8)	\$(142.8)	\$(393.4 )	\$(408.7 )
Non-GAAP net loss	\$(26.4 )	\$(39.0 )	\$(86.4 )	\$(50.1 )
GAAP diluted net loss per share (1)	\$(0.55 )	\$(0.64 )	\$(1.79 )	\$(1.83 )
Non-GAAP diluted net loss per share (1)	\$(0.12 )	\$(0.18 )	\$(0.39 )	\$(0.22 )
GAAP diluted shares used in per share calculation	219.6	222.3	219.7	223.3
Non-GAAP diluted weighted average shares used in per share calculation	219.6	222.3	219.7	223.3

(1) Net loss per share was computed independently for each of the periods presented; therefore the sum of the net loss per share amount for the quarters may not equal the total for the year.

For our internal budgeting and resource allocation process and as a means to evaluate period-to-period comparisons, we use non-GAAP measures to supplement our condensed consolidated financial statements presented on a GAAP basis. These non-GAAP measures do not include certain items that may have a material impact upon our reported financial results. We also use non-GAAP measures in making operating decisions because we believe those measures provide meaningful supplemental information regarding our earning potential and performance for management by excluding certain expenses and charges that may not be indicative of our core business operating results. For the reasons set forth below, we believe these non-GAAP financial measures are useful to investors both because (1) they allow for greater transparency with respect to key metrics used

by management in its financial and operational decision-making and (2) they are used by our institutional investors and the analyst community to help them analyze the health of our business. This allows investors and others to better understand and evaluate our operating results and future prospects in the same manner as management, compare financial results across accounting periods and to those of peer companies and to better understand the long-term performance of our core business. We also use some of these measures for purposes of determining company-wide incentive compensation.

There are limitations in using non-GAAP financial measures because non-GAAP financial measures are not prepared in accordance with GAAP and may be different from non-GAAP financial measures used by other companies. The non-GAAP financial measures included above are limited in value because they exclude certain items that may have a material impact upon our reported financial results. In addition, they are subject to inherent limitations as they reflect the exercise of judgments by management about which charges are excluded from the non-GAAP financial measures. We compensate for these limitations by analyzing current and future results on a GAAP basis as well as a non-GAAP basis and also by providing GAAP measures in our public disclosures. The presentation of non-GAAP financial information is meant to be considered in addition to, not as a substitute for or in isolation from, the directly comparable financial measures prepared in accordance with GAAP. We urge investors to review the reconciliation of our non-GAAP financial measures to the comparable GAAP financial measures included below, and not to rely on any single financial measure to evaluate our business.

**Reconciliation of GAAP Financial Measures to Non-GAAP Financial Measures**

(In millions except for gross margin, operating margin, and per share data):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
	<b>(Unaudited)</b>			
Gross profit	\$437.8	\$408.1	\$1,272.5	\$1,293.2
Stock-based compensation expense	3.9	3.5	11.6	10.3
Amortization of developed technologies	4.0	10.4	12.7	32.0
Non-GAAP gross profit	\$445.7	\$422.0	\$1,296.8	\$1,335.5
Gross margin	85	% 83	% 85	% 83
Stock-based compensation expense	1	% 1	% 1	% 1
Amortization of developed technologies	1	% 2	% 1	% 2
Non-GAAP gross margin (2)	86	% 86	% 86	% 86
Loss from operations	\$(100.0)	\$(119.9)	\$(327.2 )	\$(332.5 )
Stock-based compensation expense	65.1	56.6	182.9	162.5
Amortization of developed technologies	4.0	10.4	12.7	32.0
Amortization of purchased intangibles	4.7	6.8	15.3	22.5
CEO transition costs (1)	—	—	21.6	—
Restructuring charges and other facility exit costs, net	—	3.2	0.2	71.5
Non-GAAP loss from operations	\$(26.2 )	\$(42.9 )	\$(94.5 )	\$(44.0 )
Operating margin	(19 )%	(24 )%	(22 )%	(21 )%
Stock-based compensation expense	13	% 11	% 12	% 10
Amortization of developed technologies	1	% 2	% 1	% 2
Amortization of purchased intangibles	1	% 1	% 1	% 1
CEO transition costs (1)	—	% —	% 1	% —
Restructuring charges and other facility exit costs, net	—	% 1	% —	% 5
Non-GAAP operating margin (2)	(5 )%	(9 )%	(6 )%	(3 )%
Net loss	\$(119.8)	\$(142.8)	\$(393.4 )	\$(408.7 )
Stock-based compensation expense	65.1	56.6	182.9	162.5
Amortization of developed technologies	4.0	10.4	12.7	32.0
Amortization of purchased intangibles	4.7	6.8	15.3	22.5
CEO transition costs (1)	—	—	21.6	—
Restructuring charges and other facility exit costs, net	—	3.2	0.2	71.5
Loss (gain) on strategic investments and dispositions	1.7	(0.4 )	9.5	(0.6 )
Discrete tax items	(2.5 )	(9.0 )	(10.2 )	4.0
Income tax effect of non-GAAP adjustments	20.4	36.2	75.0	66.7
Non-GAAP net loss	\$(26.4 )	\$(39.0 )	\$(86.4 )	\$(50.1 )

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
	(Unaudited)			
GAAP diluted net loss per share (3)	\$(0.55)	\$(0.64)	\$(1.79)	\$(1.83)
Stock-based compensation expense	0.30	0.25	0.83	0.73
Amortization of developed technologies	0.02	0.05	0.06	0.14
Amortization of purchased intangibles	0.02	0.03	0.07	0.10
CEO transition costs (1)	—	—	0.09	—
Restructuring charges and other facility exit costs, net	—	0.01	—	0.32
Loss on strategic investments and dispositions	0.01	—	0.05	—
Discrete tax items	(0.01 )	(0.03 )	(0.04 )	0.02
Income tax effect of non-GAAP adjustments	0.09	0.15	0.34	0.30
Non-GAAP diluted net loss per share (3)	\$(0.12)	\$(0.18)	\$(0.39)	\$(0.22)

(1) CEO transition costs include stock-based compensation of \$16.6 million related to the acceleration of eligible stock awards in the nine months ended October 31, 2017.

(2) Totals may not sum due to rounding.

(3) Net loss per share was computed independently for each of the periods presented; therefore the sum of the net loss per share amount for the quarters may not equal the total for the year.

Our non-GAAP financial measures may exclude the following:

*Stock-based compensation expenses.* We exclude stock-based compensation expenses from non-GAAP measures primarily because they are non-cash expenses and management finds it useful to exclude certain non-cash charges to assess the appropriate level of various operating expenses to assist in budgeting, planning and forecasting future periods. Moreover, because of varying available valuation methodologies, subjective assumptions and the variety of award types that companies can use under FASB ASC Topic 718, we believe excluding stock-based compensation expenses allows investors to make meaningful comparisons between our recurring core business operating results and those of other companies.

*Amortization of developed technologies and purchased intangibles.* We incur amortization of acquisition-related developed technology and purchased intangibles in connection with acquisitions of certain businesses and technologies. Amortization of developed technologies and purchased intangibles is inconsistent in amount and frequency and is significantly affected by the timing and size of our acquisitions. Management finds it useful to exclude these variable charges from our cost of revenues to assist in budgeting, planning and forecasting future periods. Investors should note that the use of intangible assets contributed to our revenues earned during the periods presented and will contribute to our future period revenues as well. Amortization of developed technologies and purchased intangible assets will recur in future periods.

*CEO transition costs.* We exclude amounts paid to the Company's former CEOs upon departure under the terms of their transition agreements, including severance payments, acceleration of restricted stock units, and continued vesting of performance stock units, and legal fees incurred with the transition. Also excluded from our non-GAAP measures are recruiting costs related to the search for a new CEO. These costs represent non-recurring expenses and are not indicative of our ongoing operating expenses. We further believe that excluding the CEO transition costs from our non-GAAP results is useful to investors in that it allows for period-over-period comparability.

*Goodwill impairment.* This is a non-cash charge to write-down goodwill to fair value when there was an indication that the asset was impaired. As explained above, management finds it useful to exclude certain non-cash charges to assess the appropriate level of various operating expenses to assist in budgeting, planning and forecasting future

periods.

*Restructuring charges and other facility exit costs (benefits), net.* These expenses are associated with realigning our business strategies based on current economic conditions. In connection with these restructuring actions or other exit actions, we recognize costs related to termination benefits for former employees whose positions were eliminated, the closure of facilities and cancellation of certain contracts. We exclude these charges because these expenses are not reflective of ongoing business and operating results. We believe it is useful for investors to understand the effects of these items on our total operating expenses.

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*Loss (gain) on strategic investments and dispositions.* We exclude gains and losses related to our strategic investments and dispositions from our non-GAAP measures primarily because management finds it useful to exclude these variable gains and losses on these investments and dispositions in assessing our financial results. Included in these amounts are non-cash unrealized gains and losses on the derivative components, realized gains and losses on the sales or losses on the impairment of these investments and dispositions. We believe excluding these items is useful to investors because these excluded items do not correlate to the underlying performance of our business and these losses or gains were incurred in connection with strategic investments and dispositions which do not occur regularly.

*Discrete tax items.* We exclude the GAAP tax provision, including discrete items, from the non-GAAP measure of net (loss) income, and include a non-GAAP tax provision based upon the projected annual non-GAAP effective tax rate. Discrete tax items include income tax expenses or benefits that do not relate to ordinary income from continuing operations in the current fiscal year, unusual or infrequently occurring items, or the tax impact of certain stock-based compensation. Examples of discrete tax items include, but are not limited to, certain changes in judgment and changes in estimates of tax matters related to prior fiscal years, certain costs related to business combinations, certain changes in the realizability of deferred tax assets or changes in tax law. Management believes this approach assists investors in understanding the tax provision and the effective tax rate related to ongoing operations. We believe the exclusion of these discrete tax items provides investors with useful supplemental information about our operational performance.

*Establishment of a valuation allowance on certain net deferred tax assets.* This is a non-cash charge to record a valuation allowance on certain deferred tax assets. As explained above, management finds it useful to exclude certain non-cash charges to assess the appropriate level of various cash expenses to assist in budgeting, planning and forecasting future periods.

*Income tax effects on the difference between GAAP and non-GAAP costs and expenses.* The income tax effects that are excluded from the non-GAAP measures relate to the tax impact on the difference between GAAP and non-GAAP expenses, primarily due to stock-based compensation, amortization of purchased intangibles and restructuring charges and other facilities exit costs (benefits) for GAAP and non-GAAP measures.

## **Liquidity and Capital Resources**

Our primary source of cash is from the sale of our software and related services. Our primary use of cash is payment of our operating costs, which consist primarily of employee-related expenses, such as compensation and benefits, as well as general operating expenses for marketing, facilities and overhead costs. In addition to operating expenses, we also use cash to fund our stock repurchase program and invest in our growth initiatives, which include acquisitions of products, technology and businesses. See further discussion of these items below.

At October 31, 2017, our principal sources of liquidity were cash, cash equivalents and marketable securities totaling \$1.72 billion and net accounts receivable of \$307.8 million. Net of our senior notes, we have cash, cash equivalents, and marketable securities totaling \$132.8 million at October 31, 2017.

In June 2017, we issued \$500.0 million aggregate principal amount of 3.5% notes due June 15, 2027. In June 2015, we issued \$450.0 million aggregate principal amount of 3.125% notes due June 15, 2020 and \$300.0 million aggregate principal amount of 4.375% notes due June 15, 2025. In December 2012, we issued \$400.0 million aggregate principal amount of 1.95% notes due December 15, 2017 and \$350.0 million aggregate principal amount of 3.6% notes due December 15, 2022 (all five series of notes collectively, the “Notes”). On July 27, 2017, we redeemed in full \$400.0 million in aggregate principal amount of outstanding 1.95% senior notes due December 15, 2017. The redemption was completed pursuant to the optional redemption provisions of the first supplemental indenture dated December 13, 2012. To redeem the notes, we used a portion of the proceeds of the 2017 Notes to pay a redemption price of approximately \$400.9 million, plus accrued and unpaid interest. Total cash repayment was \$401.8 million.

The Company did not incur any additional early termination penalties in connection with such redemption.

As of October 31, 2017, we have \$1.6 billion aggregate principal amount of Notes outstanding. In addition, we have a line of credit facility that permits unsecured short-term borrowings of up to \$400.0 million with a May 2020 maturity date. This credit agreement contains customary covenants that could restrict the imposition of liens on our assets, and restrict the Company's ability to incur additional indebtedness or make dispositions of assets if we fail to maintain the financial covenants. The financial covenants consist of a maximum debt to total cash ratio, a fixed charge coverage ratio through April 30, 2018, and after April 30, 2018, a minimum interest coverage ratio. As of December 5, 2017, we have no amounts outstanding under the credit facility. Borrowings under the credit facility and the net proceeds from the offering of the Notes are available for general corporate purposes.

Our cash and cash equivalents are held by diversified financial institutions globally. Our primary commercial banking relationship is with Citigroup and its global affiliates. In addition, Citibank N.A., an affiliate of Citigroup, is one of the lead lenders and agent in the syndicate of our \$400.0 million line of credit.

Long-term cash requirements for items other than normal operating expenses are anticipated for the following: repayment of debt; common stock repurchases; the acquisition of businesses, software products, or technologies complementary to our business; and capital expenditures, including the purchase and implementation of internal-use software applications.

Our strategy includes improving our product functionality and expanding our product offerings through internal development as well as through the acquisition of products, technology, and businesses. Acquisitions often increase the speed at which we can deliver product functionality to our customers; however, they entail cost and integration challenges and, in certain instances, negatively impact our operating margins. We continually review these trade-offs in making decisions regarding acquisitions. We currently anticipate that we will continue to acquire products, technology, and businesses as compelling opportunities become available. Our decision to acquire businesses or technology is dependent on our business needs, the availability of suitable sellers and technology, and our own financial condition.

As of October 31, 2017, other than what was previously discussed in this section regarding our latest debt issuance and repayment, there have been no material changes in our contractual obligations or commercial commitments compared to those we disclosed in management’s discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2017.

Our cash, cash equivalents, and marketable securities balances are concentrated in a few locations around the world, with substantial amounts held outside of the United States. As of October 31, 2017, approximately 80% of our total cash or cash equivalents, and marketable securities are located in foreign jurisdictions and that percentage will fluctuate subject to business needs. There are several factors that can impact our ability to utilize foreign cash balances, such as foreign exchange restrictions, foreign regulatory restrictions or adverse tax costs. Our intent is that amounts related to foreign earnings permanently reinvested outside the U.S. will remain outside the United States. We expect to meet our U.S. liquidity needs through ongoing cash flows, foreign cash for which U.S. federal income taxes have been provided, external borrowings, or a combination. We regularly review our capital structure and consider a variety of potential financing alternatives and planning strategies to ensure we have the proper liquidity available in the locations in which it is needed.

Cash from operations could also be affected by various risks and uncertainties, including, but not limited to the risks detailed in Part II, Item 1A titled “Risk Factors.” However, based on our current business plan and revenue prospects, we believe that our existing balances, our anticipated cash flows from operations and our available credit facility will be sufficient to meet our working capital and operating resource expenditure requirements for at least the next 12 months.

Our revenue, earnings, cash flows, receivables, and payables are subject to fluctuations due to changes in foreign currency exchange rates, for which we have put in place foreign currency contracts as part of our risk management strategy. See Part II, Item 7A, “Quantitative and Qualitative Disclosures about Market Risk” for further discussion.

	<b>Nine Months Ended October 31,</b>	
<i>(in millions)</i>	<b>2017</b>	<b>2016</b>
Net cash (used in) provided by operating activities	\$(78.4)	\$154.1
Net cash provided by investing activities	258.9	285.8

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Net cash used in financing activities (374.2) (354.3 )

Net cash used in operating activities of \$78.4 million for the nine months ended October 31, 2017 consisted of our net loss of \$393.4 million, partially offset by \$288.3 million of non-cash expenses, including stock-based compensation expense, depreciation, amortization and accretion expense.

The primary working capital source of cash was a decrease in accounts receivable from \$452.3 million as of January 31, 2017 to \$307.8 million as of October 31, 2017. The primary working capital uses of cash were decreases in accrued compensation and other accrued liabilities.

Net cash provided by investing was \$258.9 million for the nine months ended October 31, 2017 and was primarily due to the sale and maturities of marketable securities. These cash inflows were partially offset by purchases of marketable securities and capital expenditures.

At October 31, 2017, our short-term investment portfolio had an estimated fair value of \$428.7 million and a cost basis of \$421.3 million. The portfolio fair value consists of \$218.7 million invested in corporate debt securities, \$58.8 million invested in U.S. government securities, \$31.3 million invested in commercial paper, \$30.4 million invested in asset backed securities, \$15.5 million invested in municipal bonds, \$7.5 million invested in agency bonds, \$6.0 million invested in sovereign debt, and \$4.0 million invested in certificates of deposit.

At October 31, 2017, \$56.5 million of short-term trading securities were invested in a defined set of mutual funds as directed by the participants in our Deferred Compensation Plan (see Note 10, "Deferred Compensation," in the Notes to Condensed Consolidated Financial Statements for further discussion).

Net cash used in financing activities was \$374.2 million for the nine months ended October 31, 2017 and was primarily due to repurchases of common stock and the repayment of debt noted earlier in this section. These cash outflows were offset in part by cash proceeds from the issuance of debt also noted earlier in this section.

### Issuer Purchases of Equity Securities

Autodesk's stock repurchase program provides Autodesk with the ability to offset the dilution from the issuance of stock under our employee stock plans and reduce shares outstanding over time, and has the effect of returning excess cash generated from our business to stockholders. Under the share repurchase program, Autodesk may repurchase shares from time to time in open market transactions, privately-negotiated transactions, accelerated share repurchase programs, tender offers, or by other means. The share repurchase program does not have an expiration date and the pace and timing of repurchases will depend on factors such as cash generation from operations, available surplus, the volume of employee stock plan activity, remaining shares available in the authorized pool, cash requirements for acquisitions, economic and market conditions, stock price and legal and regulatory requirements.

During the three and nine months ended October 31, 2017, we repurchased 1.0 million and 4.4 million shares of our common stock, respectively. At October 31, 2017, 22.1 million shares remained available for repurchase under the repurchase program approved by the Board of Directors. These programs do not have a fixed expiration date. See Note 15, "Common Stock Repurchase Program," in the Notes to Condensed Consolidated Financial Statements for further discussion.

The following table provides information about the repurchase of common stock in open-market transactions during the quarter ended October 31, 2017:

<i>(Shares in millions)</i>	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2)
August 1 - August 31	0.4	\$ 109.66	0.4	22.7
September 1 - September 30	0.3	112.59	0.3	22.4
October 1 - October 31	0.3	117.47	0.3	22.1
Total	1.0	\$ 112.97	1.0	

(1) Represents shares purchased in open-market transactions under the stock repurchase plan approved by the Board of Directors.

(2) These amounts correspond to the plan approved by the Board of Directors in September 2016 that authorized the repurchase of 30.0 million shares. The plan does not have a fixed expiration date.

There were no sales of unregistered securities during the nine months ended October 31, 2017.

### **Off-Balance Sheet Arrangements**

As of October 31, 2017, we did not have any significant off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

## Glossary of Terms

*Annualized Recurring Revenue (ARR)*—Represents the annualized value of our average monthly recurring revenue for the preceding three months. "Maintenance plan ARR" captures ARR relating to traditional maintenance attached to perpetual licenses. "Subscription plan ARR" captures ARR relating to subscription offerings. Refer to the definition of recurring revenue below for more details on what is included within ARR. Recurring revenue acquired with the acquisition of a business is captured when total subscriptions are captured in our systems and may cause variability in the comparison of this calculation.

ARR is currently one of our key performance metrics to assess the health and trajectory of our business. ARR should be viewed independently of revenue and deferred revenue as ARR is a performance metric and is not intended to be combined with any of these items.

*Annualized Revenue Per Subscription (ARPS)*—Is calculated by dividing our annualized recurring revenue by the total number of subscriptions.

*Building Information Modeling (BIM)*—Describes a model-based technology linked with a database of project information, and is the process of generating and managing information throughout the life cycle of a building. BIM is used as a digital representation of the building process to facilitate exchange and interoperability of information in digital formats.

*Cloud Service Offerings*—Represents individual term-based offerings deployed through web browser technologies or in a hybrid software and cloud configuration. Cloud service offerings that are bundled with other product offerings are not captured as a separate cloud service offering.

*Constant Currency (CC) Growth Rates*—We attempt to represent the changes in the underlying business operations by eliminating fluctuations caused by changes in foreign currency exchange rates as well as eliminating hedge gains or losses recorded within the current and comparative periods. We calculate constant currency growth rates by (i) applying the applicable prior period exchange rates to current period results and (ii) excluding any gains or losses from foreign currency hedge contracts that are reported in the current and comparative periods.

*Enterprise Business Agreements (EBAs)*—Represents programs providing enterprise customers with token-based access or a fixed maximum number of seats to a broad pool of Autodesk products over a defined contract term.

*Industry Collections*—Autodesk industry collections are a combination of products and services that target a specific user objective and support a set of workflows for that objective. Our Industry Collections consist of: Autodesk Architecture, Engineering and Construction Collection, Autodesk Product Design Collection, and Autodesk Media and Entertainment Collection. We introduced industry collections effective August 1, 2016 to replace our suites.

*License and Other Revenue*—Represents (1) perpetual license revenue and (2) other revenue. Perpetual license revenue includes software license revenue from the sale of perpetual licenses, and Creative Finishing. Other revenue includes revenue such as standalone consulting and training, and is recognized over time as the services are performed.

*Subscription Plans*—Comprises our term-based product subscriptions, cloud service offerings, and enterprise business agreements (EBAs). Subscriptions represent a hybrid of desktop and SaaS functionality which provides a device-independent, collaborative design workflow for designers and their stakeholders. With subscription, customers can use our software anytime, anywhere, and get access to the latest updates to previous versions.

*Maintenance Plans*—Our maintenance plans provide our customers with a cost effective and predictable budgetary option to obtain the productivity benefits of our new releases and enhancements when and if released during the term of their contracts. Under our maintenance plans, customers are eligible to receive unspecified upgrades when and if available, and technical support. We recognize maintenance revenue over the term of the agreements, generally between one and three years.

*Recurring revenue*—Consists of the revenue for the period from our traditional maintenance plans and revenue from our subscription plan offerings. It excludes subscription revenue related to consumer product offerings, select Creative Finishing product offerings, education offerings, and third party products. Recurring revenue acquired with the acquisition of a business is captured when total subscriptions are captured in our systems and may cause variability in the comparison of this calculation.

*Subscription revenue*—Includes subscription fees from term-based product subscriptions, flexible enterprise business arrangements and all other services as part of a bundled subscription agreement accounted for as a single unit of accounting. (*i.e.* cloud services, maintenance, and consulting).



*Total Subscriptions*—Consists of subscriptions from our maintenance plans and subscription plan offerings that are active and paid as of the quarter end date. For certain cloud service offerings and flexible enterprise business arrangements, subscriptions represent the monthly average activity reported within the last three months of the quarter end date. Total subscriptions do not include education offerings, consumer product offerings, select Creative Finishing product offerings, Autodesk Buzzsaw, Autodesk Constructware, and third party products. Subscriptions acquired with the acquisition of a business are captured once the data conforms to our subscription count methodology and when added, may cause variability in the comparison of this calculation.

*Unbilled deferred revenue*—Unbilled deferred revenue represents contractually stated or committed orders under multi-year billing plans for subscription, services, license and maintenance for which the associated revenue has not been recognized and the customer has not been invoiced. Unbilled deferred revenue is not included on our Consolidated Balance Sheet until invoiced to the customer.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **Foreign currency exchange risk**

Our revenue, earnings, cash flows, receivables and payables are subject to fluctuations due to changes in foreign currency exchange rates. Our risk management strategy utilizes foreign currency contracts to manage our exposure to foreign currency volatility that exists as part of our ongoing business operations. We utilize cash flow hedge contracts to reduce the exchange rate impact on a portion of the net revenue or operating expense of certain anticipated transactions. In addition, we use balance sheet hedge contracts to reduce the exchange rate risk associated primarily with foreign currency denominated receivables and payables. As of October 31, 2017 and January 31, 2017, we had open cash flow and balance sheet hedge contracts with future settlements within one to twelve months. Contracts were primarily denominated in euros, Japanese yen, Swiss francs, British pounds, Canadian dollars and Australian dollars. We do not enter into any foreign exchange derivative instruments for trading or speculative purposes. The net notional amount of our option and forward contracts was \$802.6 million and \$640.0 million at October 31, 2017 and January 31, 2017, respectively.

We use foreign currency contracts to reduce the exchange rate impact on the net revenue and operating expenses of certain anticipated transactions. A sensitivity analysis performed on our hedging portfolio as of October 31, 2017 indicated that a hypothetical 10% appreciation of the U.S. dollar from its value at October 31, 2017 and January 31, 2017 would increase the fair value of our foreign currency contracts by \$58.2 million and \$60.9 million, respectively. A hypothetical 10% depreciation of the dollar from its value at October 31, 2017 and January 31, 2017 would decrease the fair value of our foreign currency contracts by \$60.8 million and \$32.5 million, respectively.

#### **Interest Rate Risk**

Interest rate movements affect both the interest income we earn on our short term investments and the market value of certain longer term securities. At October 31, 2017, we had \$1.33 billion of cash equivalents and marketable securities, including \$428.7 million classified as short-term marketable securities and \$264.3 million classified as long-term marketable securities. If interest rates were to move up or down by 50 or 100 basis points over a twelve month period, the market value change of our marketable securities would have an unrealized gain or loss of \$2.4 million and \$4.7 million, respectively.

#### **Other Market Risk**

From time to time we make direct investments in privately held companies. Privately held company investments generally are considered inherently risky. The technologies and products these companies have under development are typically in the early stages and may never materialize, which could result in a loss of all or a substantial part of our initial investment in these companies. The evaluation of privately held companies is based on information that we request from these companies, which is not subject to the same disclosure regulations as U.S. publicly traded companies, and as such, the basis for these evaluations is subject to the timing and accuracy of the data received from these companies. See Note 4, "Financial Instruments," for further discussion regarding our privately held investments.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

We maintain “disclosure controls and procedures,” as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Our disclosure controls and procedures are designed to ensure that information required to be disclosed in our Exchange Act reports is (i) recorded, processed, summarized and reported within the time periods specified in the rules of the Securities and Exchange Commission, and (ii) accumulated and communicated to Autodesk management, including our CEO and CFO, to allow timely decisions regarding required disclosure. We conducted an evaluation, under the supervision and with the participation of our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon this evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were effective to meet the objective for which they were designed and operated at the reasonable assurance level.

Our disclosure controls and procedures include components of our internal control over financial reporting. Our management, including our CEO and CFO, does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Autodesk have been detected.

### **Changes in Internal Control Over Financial Reporting**

There were no changes in our internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended October 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

We are involved in a variety of claims, suits, investigations and proceedings in the normal course of business activities including claims of alleged infringement of intellectual property rights, commercial, employment, piracy prosecution, business practices and other matters. In our opinion, resolution of pending matters is not expected to have a material adverse impact on our consolidated results of operations, cash flows or financial position. Given the unpredictable nature of legal proceedings, there is a reasonable possibility that an unfavorable resolution of one or more such proceedings could in the future materially affect our results of operations, cash flows or financial position in a particular period, however, based on the information known by us as of the date of this filing and the rules and regulations applicable to the preparation of our financial statements, any such amount is either immaterial or it is not possible to provide an estimated amount of any such potential loss.

### **ITEM 1A. RISK FACTORS**

We operate in a rapidly changing environment that involves significant risks, a number of which are beyond our control. In addition to the other information contained in this Form 10-Q, the following discussion highlights some of these risks and the possible impact of these factors on our business, financial condition, and future results of operations. If any of the following risks actually occur, our business, financial condition, or results of operations may be adversely impacted, causing the trading price of our common stock to decline. In addition, these risks and uncertainties may impact the “forward-looking” statements described elsewhere in this Form 10-Q and in the documents incorporated herein by reference. They could affect our actual results of operations, causing them to differ materially from those expressed in “forward-looking” statements.

*Global economic and political conditions may further impact our industries, business and financial results.*

Our overall performance depends largely upon domestic and worldwide economic and political conditions. The United States and other international economies have experienced cyclical downturns from time to time in which economic activity was impacted by falling demand for a variety of goods and services, restricted credit, poor liquidity, decreased government spending, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, bankruptcies and overall uncertainty with respect to the economy. These economic conditions can occur abruptly. If economic growth in countries where we do business slows or if such countries experience further economic recessions, customers may delay or reduce technology purchases. Our customers include government entities, including the U.S. federal government, and if spending cuts impede the ability of governments to purchase our products and services, our revenue could decline. In addition, a number of our customers rely, directly and indirectly, on government spending.

Geopolitical trends toward nationalism and protectionism and the weakening or dissolution of international trade pacts may increase the cost of, or otherwise interfere with, conducting business. These trends have increased levels of political and economic unpredictability globally, and may increase the volatility of global financial markets; the impact of such developments on the global economy remains uncertain. Political instability or adverse political developments in any of the countries in which we do business could harm our business, results of operations and financial condition.

A financial sector credit crisis could impair credit availability and the financial stability of our customers, including our distribution partners and channels. A disruption in the financial markets may also have an effect on our derivative counterparties and could also impair our banking partners, on which we rely for operating cash management. Any of these events could harm our business, results of operations and financial condition.

*If we fail to successfully manage our business model transition to cloud-based products and more flexible product licenses, our results of operations could be negatively impacted.*

To address the industry transition from personal computer to cloud, mobile, and social computing, we accelerated our move to the cloud and are offering more flexible product licenses. To support our transition, we discontinued selling new perpetual licenses of most individual software products effective February 1, 2016, and discontinued selling new perpetual licenses of suites effective August 1, 2016. On June 15, 2017, we commenced a program to incentivize maintenance plan customers to move to subscription plan offerings. Through this program we offer discounts to those maintenance plan customers that move to subscription plan offerings, while at the same time will increase maintenance plan pricing over time for customers that remain on maintenance.

As a result, we expect to derive an increasing portion of our revenues in the future from subscriptions. This subscription model prices and delivers our products in a way that differs from the historical perpetual pricing and delivery methods. These

changes reflect a significant shift from perpetual license sales and distribution of our software in favor of providing our customers the right to access certain of our software in a hosted environment or use downloaded software for a specified subscription period. During our transition, revenue, billings, gross margin, operating margin, net income (loss), earnings (loss) per share, deferred revenue, and cash flow from operations will be impacted as more revenue is recognized ratably rather than upfront and as new offerings bring a wider variety of price points.

Our ability to achieve our financial objectives is subject to risks and uncertainties. The new offerings require a considerable investment of technical, financial, legal, and sales resources, and a scalable organization. Market acceptance of such offerings is affected by a variety of factors, including but not limited to: security, reliability, performance, current license terms, customer preference, social/community engagement, customer concerns with entrusting a third party to store and manage their data, public concerns regarding privacy and the enactment of restrictive laws or regulations. Whether our business model transition will prove successful and will accomplish our business and financial objectives is subject to numerous risks and uncertainties, including but not limited to: customer demand, attach and renewal rates, channel acceptance, our ability to further develop and scale infrastructure, our ability to include functionality and usability in such offerings that address customer requirements, tax and accounting implications, pricing, and our costs. In addition, the metrics we use to gauge the status of our business model transition may evolve over the course of the transition as significant trends emerge. If we are unable to successfully establish these new offerings and navigate our business model transition in light of the foregoing risks and uncertainties, our results of operations could be negatively impacted.

*Our strategy to develop and introduce new products and services exposes us to risks such as limited customer acceptance, costs related to product defects, and large expenditures, each of which may not result in additional net revenue or could result in decreased net revenue.*

Rapid technological changes, as well as changes in customer requirements and preferences, characterize the software industry. Just as the transition from mainframes to personal computers transformed the industry 30 years ago, we believe our industry is undergoing a similar transition from the personal computer to cloud, mobile, and social computing. Customers are also reconsidering the manner in which they license software products, which requires us to constantly evaluate our business model and strategy. In response, we are focused on providing solutions to enable our customers to be more agile and collaborative on their projects. We devote significant resources to the development of new technologies. In addition, we frequently introduce new business models or methods that require a considerable investment of technical and financial resources such as our introduction of flexible license and service offerings. It is uncertain whether these strategies will prove successful or whether we will be able to develop the necessary infrastructure and business models more quickly than our competitors. We are making such investments through further development and enhancement of our existing products and services, as well as through acquisitions of new product lines. Such investments may not result in sufficient revenue generation to justify their costs and could result in decreased net revenue. If we are not able to meet customer requirements, either with respect to our software or hardware products or the manner in which we provide such products, or if we are not able to adapt our business model to meet our customers' requirements, our business, financial condition or results of operations may be adversely impacted.

In particular, a critical component of our growth strategy is to have customers of our AutoCAD and AutoCAD LT products expand their portfolios to include our other offerings and cloud-based services. We want customers using individual Autodesk products to expand their portfolio with our other offerings and cloud-based services, and we are taking steps to accelerate this migration. At times, sales of licenses of our AutoCAD and AutoCAD LT or individual Autodesk flagship products have decreased without a corresponding increase in industry collections or cloud-based services revenue or without purchases of customer seats to our industry collections. Should this continue, our results of operations will be adversely affected. Also, adoption of our cloud and mobile computing offerings and changes in the delivery of our software and services to our customers, such as product subscription offerings, will change the way

in which we recognize revenue relating to our software and services, with a potential negative impact on our financial performance. The accounting impact of these offerings and other business decisions are expected to result in an increase in the percentage of our ratable revenue, as well as recurring revenue, making for a more predictable business over time, while potentially reducing our upfront perpetual revenue stream.

Our executive management team must act quickly, continuously, and with vision, given the rapidly changing customer expectations and technology advancements inherent in the software industry, the extensive and complex efforts required to create useful and widely accepted products and the rapid evolution of cloud computing, mobile devices, new computing platforms, and other technologies, such as consumer products. Although we have articulated a strategy that we believe will fulfill these challenges, if we fail to execute properly on that strategy or adapt that strategy as market conditions evolve, we may fail to meet our customers' expectations, fail to compete with our competitors' products and technology, and lose the confidence of our channel partners and employees. This in turn could adversely affect our business and financial performance.

*A significant portion of our revenue is generated through maintenance revenue; if decreases in maintenance revenue are not offset by increases in subscription revenue, our future revenue and financial results will be negatively impacted.*

Our maintenance customers have no obligation to renew their maintenance contracts after the expiration of their maintenance period, which is typically one year. The discontinuance of our perpetual licenses for most individual software products on February 1, 2016 and for perpetual suites on August 1, 2016 resulted in the loss of future maintenance attach opportunities. On June 15, 2017, we commenced a program to incentivize maintenance plan customers to move to subscription plan offerings. As a result, we expect customer renewal rates will decline or fluctuate over time as a result of a number of factors, including the overall global economy, the health of their businesses, the perceived value of the maintenance program and planned maintenance pricing increases. If our non-renewing maintenance customers do not transition to our subscriptions, our future revenue and financial results will be negatively impacted.

*Revenue from our offerings may be difficult to predict during our business model transition.*

The discontinuance of our perpetual licenses for most individual software products on February 1, 2016 and for perpetual suites on August 1, 2016 has and will continue to result in the loss of future upfront licensing revenue. This also has frozen the growth of our maintenance revenue because there will be no further opportunities to attach maintenance licensing. On June 15, 2017, we commenced a program to incentivize maintenance plan customers to move to subscription plan offerings. As a result, we expect our maintenance revenue to decline over time, but it may decline more quickly than anticipated due to low maintenance renewals. At the same time, our subscription (formerly new model) revenue may not grow as rapidly as anticipated. Our subscription pricing allows customers to use our offerings at a lower initial cost when compared to the sale of a perpetual license. Although our subscriptions are designed to increase the number of customers who purchase offerings and create a recurring revenue stream that is more predictable over time, it creates risks related to the timing of revenue recognition and expected reductions in cash flows in the near term.

*We may not be able to predict subscription renewal rates and their impact on our future revenue and operating results.*

Our customers are not obligated to renew their subscriptions for our offerings, and they may elect not to renew. We cannot assure renewal rates, or the mix of subscriptions renewals. Customer renewal rates may decline or fluctuate due to a number of factors, including offering pricing, competitive offerings, customer satisfaction, and reductions in customer spending levels or customer activity due to economic downturns or financial markets uncertainty. If our customers do not renew their subscriptions or if they renew on less favorable terms, our revenues may decline.

*Actions that we are taking to restructure our business in alignment with our strategic priorities may not be as effective as anticipated.*

During the fourth quarter of fiscal 2018, we commenced a world-wide restructuring plan to support the Company's strategic priorities of completing the subscription transition; digitizing the Company; and re-imagining manufacturing, construction, and production. Through the restructuring, we seek to reduce our investment in areas not aligned with our strategic priorities, including in areas related to research and development and go to market activities. At the same time, we plan to further invest in strategic priority areas related to as digital infrastructure, customer success, and construction.

We may encounter challenges in the execution of these efforts, and these challenges could impact our financial results. If we are unable to successfully complete our restructuring efforts, our business and operating results may be harmed.



As a result of these actions, we will incur additional costs in the short term that will have the effect of reducing our GAAP operating margins.

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*We are dependent on international revenue and operations, exposing us to significant regulatory, global economic, intellectual property, collections, currency exchange rate, taxation, political instability and other risks, which could adversely impact our financial results.*

We are dependent on our international operations for a significant portion of our revenue. International net revenue represented 64% of our net revenue for both the nine months ended October 31, 2017 and 2016. Our international revenue, including that from emerging economies, is subject to general economic and political conditions in foreign markets, including conditions in foreign markets resulting from economic and political conditions in the U.S. Our revenue is also impacted by the relative geographical and country mix of our revenue over time. At times, these factors adversely impact our international revenue, and consequently our business as a whole. Our dependency on international revenue makes us much more exposed to global economic and political trends, which can negatively impact our financial results, even if our results in the U.S. are strong for a particular period. Further, a significant portion of our earnings from our international operations may not be freely transferable to the U.S. due to remittance restrictions, adverse tax consequences or other factors.

We anticipate that our international operations will continue to account for a significant portion of our net revenue, and, as we expand our international development, sales and marketing expertise, will provide significant support to our overall efforts in countries outside of the U.S.

Risks inherent in our international operations include:

• economic volatility;

• fluctuating currency exchange rates, including risks related to any hedging activities we undertake;

• unexpected changes in regulatory requirements and practices;

• delays resulting from difficulty in obtaining export licenses for certain technology;

• different purchase patterns as compared to the developed world;

• tariffs, quotas, and other trade barriers and restrictions;

• operating in locations with a higher incidence of corruption and fraudulent business practices, particularly in emerging economies;

• increasing enforcement by the U.S. under the Foreign Corrupt Practices Act, and adoption of stricter anti-corruption laws in certain countries, including the United Kingdom;

• difficulties in staffing and managing foreign sales and development operations;

• local competition;

• longer collection cycles for accounts receivable;

• potential changes in tax laws, including possible U.S. and foreign tax law changes that, if enacted, could significantly impact how multinational companies are taxed;

tax arrangements with foreign governments, including our ability to meet and renew the terms of those tax arrangements;

laws regarding the management of and access to data and public networks;

possible future limitations upon foreign owned businesses;

increased financial accounting and reporting burdens and complexities;

inadequate local infrastructure;

• greater difficulty in protecting intellectual property;

• software piracy; and

• other factors beyond our control, including popular uprisings, terrorism, war, natural disasters, and diseases.

Some of our business partners also have international operations and are subject to the risks described above.

The Brexit vote has exacerbated and may further exacerbate many of the risks and uncertainties described above. The proposed withdrawal of the United Kingdom from the European Union could, among other potential outcomes, adversely affect the tax, tax treaty, currency, operational, legal and regulatory regimes to which our businesses in the region are subject. The withdrawal could also, among other potential outcomes, disrupt the free movement of goods, services and people between the United Kingdom and the European Union and significantly disrupt trade between the United Kingdom and the European Union and other parties. Further, uncertainty around these and related issues could lead to adverse effects on the economy of the United Kingdom and the other economies in which we operate.

Even if we are able to successfully manage the risks of international operations, our business may be adversely affected if our business partners are not able to successfully manage these risks.

*We are subject to governmental export and import controls that could impair our ability to compete in international markets or subject us to liability if we violate the controls.*

Our offerings are subject to U.S. export controls and economic sanctions laws and regulations that prohibit the shipment of certain products and services without the required export authorizations or export to locations, governments, and persons targeted by U.S. sanctions. While we have processes in place to prevent our offerings from being exported in violation of these laws, including obtaining authorizations as appropriate and screening against U.S. Government and international lists of restricted and prohibited persons, we cannot guarantee that these processes will prevent all violations of export control and sanctions laws.

We also note that if our channel partners fail to obtain appropriate import, export or re-export licenses or permits, we may also be adversely affected, through reputational harm as well as other negative consequences including government investigations and penalties. We presently incorporate export control and sanctions compliance requirements in our channel partner agreements. Complying with export control and sanctions regulations for a particular sale may be time-consuming and may result in the delay or loss of sales opportunities.

Violations of U.S. sanctions or export control laws can result in fines or penalties, including civil penalties of up to \$284,582 or twice the value of the transaction, whichever is greater, per violation. In the event of criminal knowing and willful violations of these laws, fines of up to \$1 million per violation and possible incarceration for responsible employees and managers could be imposed.

While we have extensive compliance procedures in place, licensing of our product offerings may have been made in potential violation of the export control and economic sanctions laws. We filed a Voluntary Self Disclosure in December 2016 with the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") with respect to the sale of certain licenses in an aggregate amount of less than \$700,000. We are currently waiting for OFAC to complete its review of this matter. We could be subject to monetary penalties or other sanctions by OFAC in connection with its review of this issue.

*Our software is highly complex and may contain undetected errors, defects or vulnerabilities, each of which could harm our business and financial performance.*

The software products that we offer are complex, and despite extensive testing and quality control, may contain errors, defects or vulnerabilities. Some errors, defects and vulnerabilities in our software products may only be discovered after the product or service has been released. Any errors, defects or vulnerabilities could result in the need for corrective releases to our software products, damage to our reputation, loss of revenue, an increase in product returns or lack of market acceptance of our products, any of which would likely harm our business and financial performance.

*Existing and increased competition and rapidly evolving technological changes may reduce our revenue and profits.*

The software industry has limited barriers to entry, and the availability of computing devices with continually expanding performance at progressively lower prices contributes to the ease of market entry. The industry is presently undergoing a

platform shift from the personal computer to cloud and mobile computing. This shift further lowers barriers to entry and poses a disruptive challenge to established software companies. The markets in which we compete are characterized by vigorous competition, both by entry of competitors with innovative technologies and by consolidation of companies with complementary products and technologies. In addition, some of our competitors in certain markets have greater financial, technical, sales and marketing, and other resources. Furthermore, a reduction in the number and availability of compatible third-party applications, or our inability to rapidly adapt to technological and customer preference changes, including those related to cloud computing, mobile devices, and new computing platforms, may adversely affect the sale of our products. Because of these and other factors, competitive conditions in the industry are likely to intensify in the future. Increased competition could result in price reductions, reduced net revenue and profit margins and loss of market share, any of which would likely harm our business.

*We are exposed to fluctuations in currency exchange rates that could negatively impact our financial results and cash flows.*

Because we conduct a substantial portion of our business outside the U.S. and we make certain business and resource decisions based on assumptions about foreign currency, we face exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve and economic conditions change. For example, the June 23, 2016 announcement of Brexit caused significant volatility in global stock markets and currency exchange rate fluctuations that resulted in the strengthening of the U.S. dollar against foreign currencies in which we conduct business. Our exposure to adverse movements in foreign currency exchange rates could have a material adverse impact on our financial results and cash flows.

We use derivative instruments to manage a portion of our cash flow exposure to fluctuations in foreign currency exchange rates. As part of our risk management strategy, we use foreign currency contracts to manage a portion of our exposures of underlying assets, liabilities, and other obligations, which exist as part of our ongoing business operations. These foreign currency instruments have maturities that extend for one to twelve months in the future, and provide us with some protection against currency exposures. However, our attempts to hedge against these risks may not be completely successful, resulting in an adverse impact on our financial results.

The fluctuations of currencies in which we conduct business can both increase and decrease our overall revenue and expenses for any given fiscal period. Although our foreign currency cash flow hedge program extends beyond the current quarter in order to reduce our exposure to foreign currency volatility, we do not attempt to completely mitigate this risk, and in any case, will incur transaction fees in adopting such hedging programs. Such volatility, even when it increases our revenues or decreases our expenses, impacts our ability to accurately predict our future results and earnings.

*A breach of security in our products, services or computer systems may compromise the integrity of our products or services, harm our reputation, create additional liability and adversely impact our financial results.*

We make significant efforts to maintain the security and integrity of our source code and computer systems. The risk of a security breach or disruption, particularly through cyber attack or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. These threats include but are not limited to identity theft, unauthorized access, DNS attacks, wireless network attacks, viruses and worms, advanced persistent threat (APT), application centric attacks, peer-to-peer attacks, phishing, backdoor trojans and distributed denial of service (DDoS) attacks. Any of the foregoing could attack our products, services or computer systems. Despite significant efforts to create security barriers to such programs, it is virtually impossible for us to entirely eliminate this risk. Like all software, our software is vulnerable to cyber attacks. In the past, hackers have targeted our software, and they may do so in the future. The impact of cyber attacks could disrupt the proper functioning of our software products or services,

cause errors in the output of our customers' work, allow unauthorized access to sensitive, proprietary or confidential information of ours or our customers, and other destructive outcomes. Moreover, as we continue to invest in new lines of consumer products and services we are exposed to increased security risks and the potential for unauthorized access to, or improper use of, the information of our consumer users. For example, cyber attacks could make our customers hesitant to adopt our cloud-based hosted subscription services, which could negatively impact our business model transition. If any of the foregoing were to occur, our reputation may suffer, customers may stop buying our products or services, we could face lawsuits and potential liability, and our financial performance could be negatively impacted.

*Changes in laws or regulations related to the Internet, local data storage or related to privacy and data security concerns may impact our business or expose us to increased liability.*

The future success of our business depends upon the continued use of the Internet as a primary medium for commerce, communication, and business applications. Federal, state, or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting data privacy and the transmission of certain types of content using the

Internet. For example, the State of California has adopted legislation requiring operators of commercial websites and mobile applications that collect personal information from California residents to conspicuously post and comply with privacy policies that satisfy certain requirements. Several other U.S. states have adopted legislation requiring companies to protect the security of personal information that they collect from consumers over the Internet, and more states may adopt similar legislation in the future. Additionally, the Federal Trade Commission has used its authority under Section 5 of the Federal Trade Commission Act to bring actions against companies for failing to maintain adequate security for personal information collected from consumers over the Internet and for failing to comply with privacy-related representations made to Internet users. The U.S. Congress has at various times proposed federal legislation intended to protect the privacy of Internet users and the security of personal information collected from Internet users that would impose additional compliance burdens upon companies collecting personal information from Internet users, and the U.S. Congress may adopt such legislation in the future. The European Union also has adopted various directives regulating data privacy and security and the transmission of content using the Internet involving residents of the European Union, including those directives known as the Data Protection Directive, the E-Privacy Directive, and the Privacy and Electronic Communications Directive, and may adopt similar directives in the future. Other countries, including Canada and several Latin American and Asian countries, have constitutional protections for, or have adopted legislation protecting, individuals' personal information. Additionally, some federal, state, or foreign governmental bodies have established laws that seek to censor the transmission of certain types of content over the Internet or require that individuals be provided with the ability to permanently delete all electronic personal information, such as the German Multimedia Law of 1997 and the California "Eraser law" for minors. Additionally, some foreign governmental bodies (such as Russia and China) have established laws or have proposed laws that seek to require local data storage.

In addition, new laws and industry self-regulatory codes have been enacted and more are being considered that may affect our ability to reach current and prospective customers, to understand how our products and services are being used, to respond to customer requests allowed under the laws, and to implement our new business models effectively. These new laws and regulations would similarly affect our competitors as well as our customers.

Given the variety of global privacy and data protection regimes, it is possible we may find ourselves subject to inconsistent obligations. For instance, the USA Patriot Act is considered by some to be in conflict with certain directives of the European Union. Situations such as these require that we make prospective determinations regarding compliance with conflicting regulations. Increased enforcement of existing laws and regulations, as well as any laws, regulations or changes that may be adopted or implemented in the future, could limit the growth of the use of public cloud applications or communications generally, result in a decline in the use of the Internet and the viability of Internet-based applications, and require us to implement additional technological safeguards.

In addition, in October 2015 the European Court of Justice issued a ruling immediately invalidating the U.S.-EU Safe Harbor Framework, which facilitated personal data transfers to the U.S. in compliance with applicable EU data protection laws. In February 2016, the European Commission and the United States agreed on a new framework for transatlantic data flows: the EU-U.S. Privacy Shield. We rely on other legal mechanisms for data transfer and continue to comply with the previous U.S.-EU Safe Harbor Framework and U.S.-Swiss Safe Harbor Framework as set forth by the U.S. Department of Commerce regarding the collection, use, and retention of personal information from European Union member countries and Switzerland.

*Increasing regulatory focus on privacy issues could impact our new business models and expose us to increased liability.*

Governments, privacy advocates and class action attorneys are increasingly scrutinizing how companies collect, process, use, store, share or transmit personal data. Any perception of our practices or products as an invasion of privacy, whether or not consistent with current regulations and industry practices, may subject us to public criticism,



class action lawsuits, reputational harm or claims by regulators, industry groups or other third parties, all of which could disrupt our business and expose us to increased liability.

*We rely on third-parties to provide us with a number of operational services, including hosting and delivery and certain of our customer services and other operations and processing of data; any interruption or delay in service from these third parties, breaches of security or privacy could expose us to liability, harm our reputation and adversely impact our financial performance.*

We increasingly rely on hosted computer services from third parties for services that we provide our customers and computer operations for our internal use. As we gather customer data and host certain customer data in third-party facilities, a security breach could compromise the integrity or availability or result in the theft of customer data. In addition, our operations could be negatively affected in the event of a security breach, and we could be subject to the loss or theft of confidential or proprietary information, including source code.

Unauthorized access to this data may be obtained through break-ins, breaches of our secure networks by unauthorized parties, employee theft or misuse, or other misconduct. We rely on a number of third party suppliers in the operation of our business for the provision of various services and materials that we use in the operation of our business and production of our products. We may from time to time rely on a single or limited number of suppliers, or upon suppliers in a single country, for these services or materials. The inability of such third parties to satisfy our requirements could disrupt our business operations or make it more difficult for us to implement our business strategy. If any of these situations were to occur, our reputation could be harmed, we could be subject to third party liability, including under data protection and privacy laws in certain jurisdictions, and our financial performance could be negatively impacted.

*If we do not maintain good relationships with the members of our distribution channel, or achieve anticipated levels of sell-through, our ability to generate revenue will be adversely affected. If our distribution channel suffers financial losses, becomes financially unstable or insolvent, or is not provided the right mix of incentives to sell our products, our ability to generate revenue will be adversely affected.*

We sell our software products both directly to end-users and through a network of distributors and resellers. For the nine months ended October 31, 2017 and 2016, approximately 70% and 74%, respectively, of our revenue was derived from indirect channel sales through distributors and resellers and we expect that the majority of our revenue will continue to be derived from indirect channel sales in the future. Our ability to effectively distribute our products depends in part upon the financial and business condition of our distributor and reseller network. Computer software distributors and resellers typically are not highly capitalized, have previously experienced difficulties during times of economic contraction and experienced difficulties during the past several years. We have processes to ensure that we assess the creditworthiness of distributors and resellers prior to our sales to them. In the past we have taken steps to support them, and may take additional steps in the future, such as extending credit terms and providing temporary discounts. These steps, if taken, could harm our financial results. If our distributors and resellers were to become insolvent, they would not be able to maintain their business and sales, or provide customer support services, which would negatively impact our business and revenue.

We rely significantly upon major distributors and resellers in both the U.S. and international regions, including the distributor Tech Data. Tech Data accounted for 31% and 30% of our total net revenue for the nine months ended October 31, 2017 and October 31, 2016, respectively. Although we believe that we are not substantially dependent on Tech Data, if Tech Data were to experience a significant disruption with its business or if our relationship with Tech Data were to significantly deteriorate, it is possible that our ability to sell to end users would be, at least temporarily, negatively impacted. This could in turn negatively impact our financial results.

Over time, we have modified and will continue to modify aspects of our relationship with our distributors and resellers, such as their incentive programs, pricing to them and our distribution model to motivate and reward them for aligning their businesses with our strategy and business objectives. Changes in these relationships and underlying programs could negatively impact their business and harm our business. In addition, the loss of or a significant reduction in business with those distributors or resellers or the failure to achieve anticipated levels of sell-through with any one of our major international distributors or large resellers could harm our business. In particular, if one or more of such distributors or resellers were unable to meet their obligations with respect to accounts payable to us, we could be forced to write off such accounts and may be required to delay the recognition of revenue on future sales to these customers. These events could have a material adverse effect on our financial results.

*Our financial results fluctuate within each quarter and from quarter to quarter making our future revenue and financial results difficult to predict.*

Our quarterly financial results have fluctuated in the past and will continue to do so in the future. These fluctuations could cause our stock price to change significantly or experience declines. We also provide investors with quarterly and annual financial forward-looking guidance that could prove to be inaccurate as a result of these fluctuations. In addition to the other factors described in this Part II, Item 1A, some of the factors that could cause our financial results to fluctuate include:

• general market, economic, business, and political conditions in particular geographies, including Europe, APAC, and emerging economies;

• failure to produce sufficient revenue, billings or subscription growth, and profitability;

- failure to achieve anticipated levels of customer acceptance of our business model transition, including the impact of the end of perpetual licenses and the introduction of our maintenance to subscription program;

- restructuring or other accounting charges and unexpected costs or other operating expenses;
- changes in product mix, pricing pressure or changes in product pricing;
- weak or negative growth in one or more of the industries we serve, including AEC, manufacturing, and digital media and entertainment markets;
- the success of new business or sales initiatives;
- security breaches and potential financial penalties to customers and government entities;
- timing of additional investments in the development of our platform or deployment of our services;
- changes in revenue recognition or other accounting guidelines employed by us and/or established by the Financial Accounting Standards Board or other rule-making bodies;
- fluctuations in foreign currency exchange rates and the effectiveness of our hedging activity;
- failure to achieve and maintain cost reductions and productivity increases;
- dependence on and the timing of large transactions;
- changes in billings linearity;
- adjustments arising from ongoing or future tax examinations;
- the ability of governments around the world to adopt fiscal policies, meet their financial and debt obligations, and to finance infrastructure projects;
- lower renewals of our maintenance program;
- failure to expand our AutoCAD and AutoCAD LT customer base to related design products and services;
- our ability to rapidly adapt to technological and customer preference changes, including those related to cloud computing, mobile devices, new computing platforms, and 3D printing;
- the timing of the introduction of new products by us or our competitors;
- the financial and business condition of our reseller and distribution channels;
- failure to accurately predict the impact of acquired businesses or to identify and realize the anticipated benefits of acquisitions, and successfully integrate such acquired businesses and technologies;
- perceived or actual technical or other problems with a product or combination of products;
- unexpected or negative outcomes of matters and expenses relating to litigation or regulatory inquiries;
- increases in cloud services-related expenses;

• timing of product releases and retirements;

• changes in tax laws or regulations, tax arrangements with foreign governments or accounting rules, such as increased use of fair value measures;

• changes in sales compensation practices;

• failure to effectively implement our copyright legalization programs, especially in developing countries;

• failure to achieve sufficient sell-through in our channels for new or existing products;

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- renegotiation or termination of royalty or intellectual property arrangements;
- interruptions or terminations in the business of our consultants or third-party developers;
- the timing and degree of expected investments in growth and efficiency opportunities;
- failure to achieve continued success in technology advancements;
- catastrophic events or natural disasters;
- regulatory compliance costs;
- potential goodwill impairment charges related to prior acquisitions; and
- failure to appropriately estimate the scope of services under consulting arrangements.

We have also experienced fluctuations in financial results in interim periods in certain geographic regions due to seasonality or regional economic or political conditions. In particular, our financial results in Europe during our third quarter are usually affected by a slower summer period, and our APAC operations typically experience seasonal slowing in our third and fourth quarters.

Our operating expenses are based in part on our expectations for future revenue and are relatively fixed in the short term. Accordingly, any revenue shortfall below expectations has had, and in the future could have, an immediate and significant adverse effect on our profitability. Greater than anticipated expenses or a failure to maintain rigorous cost controls would also negatively affect profitability.

*Our business could suffer as a result of risks, costs, charges and integration risks associated with strategic acquisitions and investments.*

We regularly acquire or invest in businesses, software products and technologies that are complementary to our business through acquisitions, strategic alliances or equity or debt investments. The risks associated with such acquisitions include, among others, the difficulty of assimilating products, operations and personnel, inheriting liabilities such as intellectual property infringement claims, the failure to realize anticipated revenue and cost projections, the requirement to test and assimilate the internal control processes of the acquired business in accordance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, and the diversion of management's time and attention.

In addition, such acquisitions and investments involve other risks such as:

- the inability to retain customers, key employees, vendors, distributors, business partners, and other entities associated with the acquired business;
- the potential that due diligence of the acquired business or product does not identify significant problems;
- exposure to litigation or other claims in connection with, or inheritance of claims or litigation risk as a result of, an acquisition, including but not limited to, claims from terminated employees, customers, or other third parties;
- the potential for incompatible business cultures;

- significantly higher than anticipated transaction or integration-related costs;

potential additional exposure to fluctuations in currency exchange rates; and

the potential impact on relationships with existing customers, vendors, and distributors as business partners as a result of acquiring another business.

We may not be successful in overcoming such risks, and such acquisitions and investments may negatively impact our business. In addition, such acquisitions and investments have in the past and may in the future contribute to potential fluctuations in our quarterly financial results. These fluctuations could arise from transaction-related costs and charges

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associated with eliminating redundant expenses or write-offs of impaired assets recorded in connection with acquisitions and investments. These costs or charges could negatively impact our financial results for a given period, cause quarter to quarter variability in our financial results or negatively impact our financial results for several future periods.

*Because we derive a substantial portion of our net revenue from a small number of products, including our AutoCAD-based software products and collections, if these products are not successful, our revenue will be adversely affected.*

We derive a substantial portion of our net revenue from sales of licenses of a limited number of our products, including AutoCAD software, products based on AutoCAD, which include our collections that serve specific markets and products that are interoperable with AutoCAD. Any factor adversely affecting sales of these products, including the product release cycle, market acceptance, product competition, performance and reliability, reputation, price competition, economic and market conditions and the availability of third-party applications, would likely harm our financial results. During the nine months ended October 31, 2017, combined revenue from our AutoCAD and AutoCAD LT products, not including collections (formerly suites) having AutoCAD or AutoCAD LT as a component, represented 19% of total net revenue compared to 15% during the nine months ended October 31, 2016.

*If we are not able to adequately protect our proprietary rights, our business could be harmed.*

We rely on a combination of patent, copyright and trademark laws, trade secret protections, confidentiality procedures and contractual provisions to protect our proprietary rights. Despite such efforts to protect our proprietary rights, unauthorized parties from time to time have copied aspects of our software products or have obtained and used information that we regard as proprietary. Policing unauthorized use of our software products is time-consuming and costly. We are unable to measure the extent to which piracy of our software products exists and we expect that software piracy will remain a persistent problem, particularly in emerging economies. Furthermore, our means of protecting our proprietary rights may not be adequate.

Additionally, we actively protect the secrecy of our confidential information and trade secrets, including our source code. If unauthorized disclosure of our source code occurs, we could potentially lose future trade secret protection for that source code. The loss of future trade secret protection could make it easier for third-parties to compete with our products by copying functionality, which could adversely affect our financial performance and our reputation. We also seek to protect our confidential information and trade secrets through the use of non-disclosure agreements with our customers, contractors, vendors and partners. However, it is possible that our confidential information and trade secrets may be disclosed or published without our authorization. If this were to occur, it may be difficult and/or costly for us to enforce our rights, and our financial performance and reputation could be negatively impacted.

*We may face intellectual property infringement claims that could be costly to defend and result in the loss of significant rights.*

As more software patents are granted worldwide, the number of products and competitors in our industry segments grows and the functionality of products in different industry segments overlaps, we expect that software product developers will be increasingly subject to infringement claims. Infringement or misappropriation claims have in the past been, and may in the future be, asserted against us, and any such assertions could harm our business. Additionally, certain patent holders without products have become more aggressive in threatening and pursuing litigation in attempts to obtain fees for licensing the right to use patents. Any such claims or threats, whether with or without merit, have been and could in the future be time-consuming to defend, result in costly litigation and diversion of resources, cause product shipment delays or require us to enter into royalty or licensing agreements. In addition, such royalty or license agreements, if required, may not be available on acceptable terms, if at all, which would likely



harm our business.

*From time to time we realign or introduce new business and sales initiatives; if we fail to successfully execute and manage these initiatives, our results of operations could be negatively impacted.*

As part of our effort to accommodate our customers' needs and demands and the rapid evolution of technology, we from time to time evolve our business and sales initiatives such as realigning our development and marketing organizations, offering software as a service, and realigning our internal resources in an effort to improve efficiency. We may take such actions without clear indications that they will prove successful, and at times, we have been met with short-term challenges in the execution of such initiatives. Market acceptance of any new business or sales initiative is dependent on our ability to match our customers' needs at the right time and price. Often we have limited prior experience and operating history in these new areas of emphasis. If any of our assumptions about expenses, revenue or revenue recognition principles from these initiatives proves incorrect, or our attempts to improve efficiency are not successful, our actual results may vary materially from those anticipated, and our financial results will be negatively impacted.

*Although we believe we currently have adequate internal control over financial reporting, we are required to evaluate our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.*

Pursuant to Section 404, we are required to furnish a report by our management on our internal control over financial reporting. The report contains, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management.

In connection with the preparation of our Condensed Consolidated Financial Statements for the fiscal quarter ended October 31, 2015, our management identified a material weakness in our internal control over financial reporting related to our controls over the technical review of our reconciliation of our deferred tax accounts and the effective tax rate. As of April 30, 2017, management believed it had sufficient evidence to conclude that the changes, initiated over the preceding 18 months that were designed to remediate the material weakness, had been completely implemented and the material weakness had been remediated.

If our management or independent registered public accounting firm identifies one or more material weaknesses in our internal control over financial reporting, we would be unable to assert that such internal control over financial reporting is effective. If we are unable to assert that our internal control over financial reporting is effective (or if our independent registered public accounting firm is unable to express an opinion that our internal controls are effective), we could lose investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our business and stock price.

*Net revenue, billings, earnings or subscriptions shortfalls or the volatility of the market generally may cause the market price of our stock to decline.*

The market price for our common stock has experienced significant fluctuations and may continue to fluctuate significantly. The market price for our common stock may be affected by a number of factors, including the other factors described in this Part II, Item 1A and the following:

- shortfalls in our expected financial results, including net revenue, ARR, ARPS, earnings, subscriptions, or other key performance metrics;
- results and future projections related to our business model transition;
- quarterly variations in our or our competitors' results of operations;
- general socio-economic, political or market conditions;
- changes in estimates of future results or recommendations or confusion on the part of analysts and investors about the short-term and long-term impact to our business resulting from our business model transition;
- uncertainty about certain governments' abilities to repay debt or effect fiscal policy;
- the announcement of new products or product enhancements by us or our competitors;
- unusual events such as significant acquisitions, divestitures, regulatory actions, and litigation;

• changes in laws, rules, or regulations applicable to our business;

• outstanding debt service obligations; and

• other factors, including factors unrelated to our operating performance, such as instability affecting the economy or the operating performance of our competitors.

Significant changes in the price of our common stock could expose us to costly and time-consuming litigation. Historically, after periods of volatility in the market price of a company's securities, a company becomes more susceptible to securities class action litigation. This type of litigation is often expensive and diverts management's attention and resources.

*Our business could be adversely affected if we are unable to attract and retain key personnel.*

Our success and ability to invest and grow depend largely on our ability to attract and retain highly skilled technical, professional, managerial, sales, and marketing personnel. Historically, competition for these key personnel has been intense. The loss of services of any of our key personnel (including key personnel joining our company through acquisitions), the inability to retain and attract qualified personnel in the future, or delays in hiring required personnel, particularly engineering and sales personnel, could make it difficult to meet key objectives, such as timely and effective product introductions and financial goals.

*Our investment portfolio consists of a variety of investment vehicles in a number of countries that are subject to interest rate trends, market volatility, and other economic factors. If general economic conditions decline, this could cause the credit ratings of our investments to deteriorate, illiquidity in the financial marketplace, and we may experience a decline in interest income and an inability to sell our investments, leading to impairment in the value of our investments.*

It is our policy to invest our cash, cash equivalents and marketable securities in highly liquid instruments with, and in the custody of, financial institutions with high credit ratings and to limit the amounts invested with any one institution, type of security and issuer. However, we are subject to general economic conditions, interest rate trends and volatility in the financial marketplace that can affect the income that we receive from our investments, the net realizable value of our investments (including our cash, cash equivalents and marketable securities) and our ability to sell them. In the U.S., for example, the yields on our portfolio securities are very low due to general economic conditions. Any one of these factors could reduce our investment income, or result in material charges, which in turn could impact our overall net income (loss) and earnings (loss) per share.

From time to time we make direct investments in privately held companies. Privately held company investments are considered inherently risky. The technologies and products these companies have under development are typically in the early stages and may never materialize, which could result in a loss of all or a substantial part of our initial investment in these companies. The evaluation of privately held companies is based on information that we request from these companies, which is not subject to the same disclosure regulations as U.S. publicly traded companies, and as such, the basis for these evaluations is subject to the timing and accuracy of the data received from these companies.

A loss on any of our investments may cause us to record an other-than-temporary impairment charge. The effect of this charge could impact our overall net income (loss) and earnings (loss) per share. In any of these scenarios, our liquidity may be negatively impacted, which in turn may prohibit us from making investments in our business, taking advantage of opportunities and potentially meeting our financial obligations as they come due.

*We are subject to legal proceedings and regulatory inquiries, and we may be named in additional legal proceedings or become involved in regulatory inquiries in the future, all of which are costly, distracting to our core business and could result in an unfavorable outcome, or a material adverse effect on our business, financial condition, results of operations, cash flows or the trading prices for our securities.*

We are involved in legal proceedings and receive inquiries from regulatory agencies. As the global economy has changed and our business has evolved, we have seen an increase in litigation activity and regulatory inquiries. Like

many other high technology companies, the number and frequency of inquiries from U.S. and foreign regulatory agencies we have received regarding our business and our business practices, and the business practices of others in our industry, have increased in recent years. In the event that we are involved in significant disputes or are the subject of a formal action by a regulatory agency, we could be exposed to costly and time consuming legal proceedings that could result in any number of outcomes. Any claims or regulatory actions initiated by or against us, whether successful or not, could result in expensive costs of defense, costly damage awards, injunctive relief, increased costs of business, fines or orders to change certain business practices, significant dedication of management time, diversion of significant operational resources, or otherwise harm our business. In any of these cases, our financial results, results of operations, cash flows or the trading prices for our securities could be negatively impacted.

*We are subject to risks related to taxation in multiple jurisdictions.*

We are a U.S.-based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. Our effective tax rate is primarily based on our expected geographic mix of earnings, statutory rates, intercompany arrangements, including the manner in which we develop, value and license our intellectual property, and enacted tax rules. Significant judgment is required in determining our effective tax rate and in evaluating our tax positions on a worldwide basis. While we believe our tax positions, including intercompany transfer pricing policies, are consistent with the tax laws in the jurisdictions in which we conduct our business, it is possible that these positions may be overturned by jurisdictional tax authorities and may have a significant impact on our effective tax rate.

Tax laws are dynamic and subject to change as new laws are passed and new interpretations of the law are issued or applied. For example, in the U.S. corporate taxation proposals are being considered by the U.S. Congress the outcome of which is uncertain. Increasingly, governmental tax authorities are scrutinizing corporate tax strategies. Many countries in the European Union, as well as a number of other countries and organizations such as the Organization for Economic Cooperation and Development, are actively considering changes to existing tax laws that, if enacted, could increase our tax obligations in many countries where we do business. If U.S. or other foreign tax authorities change applicable tax laws or successfully challenge the manner in which our profits are currently recognized, our overall taxes could increase, and our business, financial condition or results of operations may be adversely impacted.

*Changes in existing financial accounting standards or practices, or taxation rules or practices may adversely affect our results of operations.*

Changes in existing accounting or taxation rules or practices, new accounting pronouncements or taxation rules, or varying interpretations of current accounting pronouncements or taxation practice could have a significant adverse effect on our results of operations or the manner in which we conduct our business. Further, such changes could potentially affect our reporting of transactions completed before such changes are effective.

For example, the U.S.-based Financial Accounting Standards Board (“FASB”) is currently working together with the International Accounting Standards Board (“IASB”) on several projects to further align accounting principles and facilitate more comparable financial reporting between companies who are required to follow U.S. Generally Accepted Accounting Principles (“GAAP”) under SEC regulations and those who are required to follow International Financial Reporting Standards (“IFRS”) outside of the U.S. These efforts by FASB and IASB may result in different accounting principles under GAAP that may result in materially different financial results for us in areas including, but not limited to principles for recognizing revenue and lease accounting.

Furthermore, in May 2014, FASB issued ASU 2014-09, Revenue from Contracts with Customers, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. This standard establishes a principle for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. The standard also provides guidance on the recognition of costs related to obtaining and fulfilling customer contracts. In August 2015, FASB subsequently issued ASU 2015-14, which deferred the effectiveness of ASU 2014-09, so that it will now be effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The revised effective date for the Company under the new standard will be the beginning of fiscal 2019. We are assessing the impact on our consolidated financial statements, defining our operational requirements, and implementing changes to our policies, procedures and systems. This new standard is both technical and complex, and we expect to incur significant ongoing costs to implement and maintain compliance with this new standard. In addition, there may be greater uncertainty with respect to projecting revenue results from future operations as we work through the new revenue recognition standard.

Adoption of ASU 2014-09 along with any other changes in accounting principles or interpretations could have a significant effect on our reported financial results and could affect the reporting of transactions completed before the announcement of a change. Any difficulties in the implementation of new or changed accounting standards including ASU 2014-09 could cause us to fail to meet our financial reporting obligations. If our estimates relating to our critical accounting policies are based on assumptions or judgments that change or prove to be incorrect, our operating results could fall below expectations of securities analysts and investors, resulting in a decline in our stock price. In addition, as we evolve and change our business and sales models, we are currently unable to determine how these potential changes may impact our new models, particularly in the area of revenue recognition.

*We are investing in resources to update and improve our information technology systems. Should our investments not succeed, or if delays or other issues with new or existing internal technology systems disrupt our operations, our business model transition could be compromised and our business could be harmed.*

We rely on our network and data center infrastructure, technology systems and our websites for our development, marketing, operational, support, sales, accounting and financial reporting activities. We continually invest resources to update and improve these systems and environments in order to meet the growing and evolving requirements of our business and customers. In particular, our transition to cloud-based products and a subscription only business model requires considerable investment in the development of technologies, and back office systems for technical, financial, compliance and sales resources to enable a scalable organization.

Such improvements are often complex, costly and time consuming. In addition, such improvements can be challenging to integrate with our existing technology systems, or uncover problems with our existing technology systems. Unsuccessful implementation of hardware or software updates and improvements could result in disruption in our business operations, loss of revenue, errors in our accounting and financial reporting or damage to our reputation and could compromise our business model transition.

*In preparing our financial statements we make certain assumptions, judgments and estimates that affect amounts reported in our consolidated financial statements, which, if not accurate, may significantly impact our financial results.*

We make assumptions, judgments and estimates for a number of items, including the fair value of financial instruments, goodwill, long-lived assets and other intangible assets, the realizability of deferred tax assets and the fair value of stock awards. We also make assumptions, judgments and estimates in determining the accruals for employee related liabilities including commissions, bonuses, and sabbaticals; and in determining the accruals for uncertain tax positions, partner incentive programs, product returns reserves, allowances for doubtful accounts, asset retirement obligations and legal contingencies. These assumptions, judgments and estimates are drawn from historical experience and various other factors that we believe are reasonable under the circumstances as of the date of the consolidated financial statements. Actual results could differ materially from our estimates, and such differences could significantly impact our financial results.

*We rely on third party technologies and if we are unable to use or integrate these technologies, our product and service development may be delayed and our financial results negatively impacted.*

We rely on certain software that we license from third parties, including software that is integrated with internally developed software and used in our products to perform key functions. These third-party software licenses may not continue to be available on commercially reasonable terms, and the software may not be appropriately supported, maintained or enhanced by the licensors. The loss of licenses to, or inability to support, maintain and enhance any such software could result in increased costs, or in delays or reductions in product shipments until equivalent software can be developed, identified, licensed and integrated, which would likely harm our business.

*Disruptions with licensing relationships and third party developers could adversely impact our business.*

We license certain key technologies from third parties. Licenses may be restricted in the term or the use of such technology in ways that negatively affect our business. Similarly, we may not be able to obtain or renew license agreements for key technology on favorable terms, if at all, and any failure to do so could harm our business.

Our business strategy has historically depended in part on our relationships with third-party developers who provide products that expand the functionality of our design software. Some developers may elect to support other products or



may experience disruption in product development and delivery cycles or financial pressure during periods of economic downturn. In particular markets, such disruptions have in the past, and would likely in the future, negatively impact these third-party developers and end users, which could harm our business.

Additionally, technology created by outsourced product development, whether outsourced to third parties or developed externally and transferred to us through business or technology acquisitions, has certain additional risks such as effective integration into existing products, adequate transfer of technology know-how and ownership and protection of transferred intellectual property.

*As a result of our strategy of partnering with other companies for product development, our product delivery schedules could be adversely affected if we experience difficulties with our product development partners.*

We partner with certain independent firms and contractors to perform some of our product development activities. We believe our partnering strategy allows us to, among other things, achieve efficiencies in developing new products and maintaining and enhancing existing product offerings. Our partnering strategy creates a dependency on such independent developers. Independent developers, including those who currently develop products for us in the U.S. and throughout the world, may not be able or willing to provide development support to us in the future. In addition, use of development resources through consulting relationships, particularly in non-U.S. jurisdictions with developing legal systems, may be adversely impacted by, and expose us to risks relating to, evolving employment, export and intellectual property laws. These risks could, among other things, expose our intellectual property to misappropriation and result in disruptions to product delivery schedules.

*Our business may be significantly disrupted upon the occurrence of a catastrophic event.*

Our business is highly automated and relies extensively on the availability of our network and data center infrastructure, our internal technology systems and our websites. We also rely on hosted computer services from third parties for services that we provide to our customers and computer operations for our internal use. The failure of our systems or hosted computer services due to a catastrophic event, such as an earthquake, fire, flood, tsunami, weather event, telecommunications failure, power failure, cyber attack, terrorism, or war, could adversely impact our business, financial results and financial condition. We have developed disaster recovery plans and maintain backup systems in order to reduce the potential impact of a catastrophic event, however there can be no assurance that these plans and systems would enable us to return to normal business operations. In addition, any such event could negatively impact a country or region in which we sell our products. This could in turn decrease that country's or region's demand for our products, thereby negatively impacting our financial results.

*If we were required to record an impairment charge related to the value of our long-lived assets, or an additional valuation allowance against our deferred tax assets, our results of operations would be adversely affected.*

Our long-lived assets are tested for impairment if indicators of impairment exist. If impairment testing shows that the carrying value of our long-lived assets exceeds their estimated fair values, we would be required to record a non-cash impairment charge, which would decrease the carrying value of our long-lived assets, as the case may be, and our results of operations would be adversely affected. Our deferred tax assets include net operating loss, amortizable tax assets and tax credit carryforwards that can be used to offset taxable income and reduce income taxes payable in future periods. Each quarter, we assess the need for a valuation allowance, considering both positive and negative evidence to determine whether all or a portion of the deferred tax assets are more likely than not to be realized. In fiscal 2016, we determined that it was more likely than not that the Company would not realize our U.S. deferred tax assets and established a valuation allowance against our U.S. deferred tax assets. We continued to have a full valuation allowance against our U.S. deferred tax assets in fiscal 2017 and increased the amount of the valuation allowance to include deferred tax assets generated in fiscal 2017, including deferred tax assets that were established as a result of the adoption of ASU 2016-09 in the second quarter of fiscal 2017. Changes in the amount of the valuation allowance could result in a material non-cash expense or benefit in the period in which the valuation allowance is adjusted and our results of operations could be materially affected. We will continue to perform these tests and any future adjustments may have a material effect on our financial condition and results of operations.

*We issued \$1.6 billion aggregate principal amount of unsecured notes in debt offerings and have an existing \$400.0 million revolving credit facility, and expect to incur other debt in the future, which may adversely affect our financial condition and future financial results.*

In June 2017, we issued \$500.0 million aggregate principal amount of 3.5% notes due June 15, 2027. In June 2015, we issued 3.125% notes due June 15, 2020 in an aggregate principal amount of \$450.0 million and 4.375% notes due June 15, 2025 in an aggregate principal amount of \$300.0 million. In December 2012, we issued 3.6% notes due December 15, 2022 in an aggregate principal amount of \$350.0 million. As the debt matures, we will have to expend significant resources to either repay or refinance these notes. For example, in July 2017, we redeemed outstanding senior notes due December 15, 2017 for a total cash repayment of \$401.8 million by using the proceeds the from the notes we issued in 2017. If we decide to refinance notes in the future, we may be required to do so on different or less favorable terms or we may be unable to refinance the notes at all, both of which may adversely affect our financial condition.

We also have a \$400.0 million revolving credit facility. As of October 31, 2017, we had no outstanding borrowings on the line of credit. Although we have no current plans to borrow under this credit facility, we may use the proceeds of any future borrowing for general corporate purposes, or for future acquisitions or expansion of our business. Our existing and future levels of indebtedness may adversely affect our financial condition and future financial results by, among other things:

• increasing our vulnerability to adverse changes in general economic, industry and competitive conditions;

requiring the dedication of a greater than expected portion of our expected cash from operations to service our indebtedness, thereby reducing the amount of expected cash flow available for other purposes, including capital expenditures and acquisitions; and

• limiting our flexibility in planning for, or reacting to, changes in our business and our industry.

This credit agreement contains customary covenants that could restrict the imposition of liens on Autodesk's assets, and restrict the Company's ability to incur additional indebtedness or make dispositions of assets if Autodesk fails to maintain the financial covenants. The financial covenants consist of a maximum debt to total cash ratio, a fixed charge coverage ratio through April 30, 2018, and after April 30, 2018 a minimum interest coverage ratio.

We are required to comply with the covenants set forth in our unsecured notes and revolving credit facility. Our ability to comply with these covenants may be affected by events beyond our control. If we breach any of the covenants and do not obtain a waiver from the note holders or lenders, then, subject to applicable cure periods, any outstanding indebtedness may be declared immediately due and payable. In addition, changes by any rating agency to our credit rating may negatively impact the value and liquidity of our securities. Under certain circumstances, if our credit ratings are downgraded or other negative action is taken, the interest rate payable by us under our revolving credit facility could increase. Downgrades in our credit ratings could also restrict our ability to obtain additional financing in the future and could affect the terms of any such financing.

## **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

There were no sales of unregistered securities during the three months ended October 31, 2017.

The information concerning issuer purchases of equity securities required by this Item is incorporated by reference herein to the section of this Report entitled "Issuer Purchases of Equity Securities" in Part I, Item 2 above.

## **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

## **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## **ITEM 5. OTHER INFORMATION**

None.

## ITEM 6. EXHIBITS

The Exhibits listed below are filed or incorporated by reference as part of this Form 10-Q.

**Exhibit No.** Description

- 10.1\* Separation Agreement, dated as of September 30, 2017, by and between Autodesk, Inc. and Jan Becker.
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
- 32.1 † Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS †† XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
- 101.SCH ††XBRL Taxonomy Extension Schema
- 101.CAL ††XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF ††XBRL Taxonomy Definition Linkbase
- 101.LAB ††XBRL Taxonomy Extension Label Linkbase
- 101.PRE ††XBRL Taxonomy Extension Presentation Linkbase

\*Denotes a management contract or compensatory plan or arrangement.

The certifications attached as Exhibit 32 that accompany this Quarterly Report on Form 10-Q are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Autodesk, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Form 10-Q, irrespective of any general incorporation language contained in such filing.

††The financial information contained in these XBRL documents is unaudited.

**SIGNATURES**

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

Dated: December 5, 2017

AUTODESK, INC.  
(Registrant)

/s/ PAUL UNDERWOOD  
Paul Underwood  
Vice President and Corporate Controller  
(Principal Accounting Officer)