

AUTODESK INC
Form 10-Q
August 30, 2016

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended July 31, 2016

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Edgar Filing: AUTODESK INC - Form 10-Q

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

As of August 23, 2016, registrant had outstanding approximately 221,892,961 shares of common stock.

AUTODESK, INC. FORM 10-Q
TABLE OF CONTENTS

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. Unaudited <u>Financial Statements:</u>	
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended July 31, 2016 and 2015</u>	3
<u>Condensed Consolidated Statements of Comprehensive Loss for the Three and Six Months Ended July 31, 2016 and 2015</u>	4
<u>Condensed Consolidated Balance Sheets as of July 31, 2016 and January 31, 2016</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended July 31, 2016 and 2015</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	27
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	48
Item 4. <u>Controls and Procedures</u>	49
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	51
Item 1A. <u>Risk Factors</u>	51
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	67
Item 3. <u>Defaults Upon Senior Securities</u>	67
Item 4. <u>Mine Safety Disclosures</u>	67
Item 5. <u>Other Information</u>	67
Item 6. <u>Exhibits</u>	68
<u>Signatures</u>	69

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AUTODESK, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

(Unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Net revenue:				
Subscription	\$322.0	\$319.0	\$648.0	\$638.8
License and other	228.7	290.5	414.6	617.2
Total net revenue	550.7	609.5	1,062.6	1,256.0
Cost of revenue:				
Cost of subscription revenue	38.2	40.0	78.0	78.7
Cost of license and other revenue	46.9	53.0	99.5	106.1
Total cost of revenue	85.1	93.0	177.5	184.8
Gross profit	465.6	516.5	885.1	1,071.2
Operating expenses:				
Marketing and sales	243.1	240.8	483.9	494.7
Research and development	193.0	193.1	386.5	387.6
General and administrative	68.6	70.1	143.3	146.0
Amortization of purchased intangibles	7.8	8.2	15.7	17.1
Restructuring charges and other facility exit costs, net	16.0	—	68.3	—
Total operating expenses	528.5	512.2	1,097.7	1,045.4
(Loss) income from operations	(62.9)	4.3	(212.6)	25.8
Interest and other expense, net	(10.1)	(3.4)	(13.7)	(3.1)
(Loss) income before income taxes	(73.0)	0.9	(226.3)	22.7
Provision for income taxes	(25.2)	(269.5)	(39.6)	(272.2)
Net loss	\$(98.2)	\$(268.6)	\$(265.9)	\$(249.5)
Basic net loss per share	\$(0.44)	\$(1.18)	\$(1.19)	\$(1.10)
Diluted net loss per share	\$(0.44)	\$(1.18)	\$(1.19)	\$(1.10)
Weighted average shares used in computing basic net loss per share	223.2	227.0	223.8	227.1
Weighted average shares used in computing diluted net loss per share	223.2	227.0	223.8	227.1

See accompanying Notes to Condensed Consolidated Financial Statements.

AUTODESK, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In millions)

(Unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Net loss	\$(98.2)	\$(268.6)	\$(265.9)	\$(249.5)
Other comprehensive loss, net of reclassifications:				
Net (loss) on derivative instruments (net of tax effect of \$1.1, \$0.8, (\$0.8) and (\$0.7), respectively)	(1.5)	(4.7)	(11.0)	(10.1)
Change in net unrealized gain (loss) on available-for-sale securities (net of tax effect of (\$0.1), \$0.3, (\$0.6) and \$0.2, respectively)	1.1	(1.4)	3.4	(1.2)
Change in defined benefit pension items (net of tax effect of (\$0.2), \$0.0, (\$0.2) and \$0.0, respectively)	—	0.3	0.3	1.0
Net change in cumulative foreign currency translation loss (net of tax effect of \$0.0, \$0.7, \$0.0 and \$4.5, respectively)	(7.9)	(8.5)	(1.4)	(6.7)
Total other comprehensive loss	(8.3)	(14.3)	(8.7)	(17.0)
Total comprehensive loss	\$(106.5)	\$(282.9)	\$(274.6)	\$(266.5)

See accompanying Notes to Condensed Consolidated Financial Statements.

AUTODESK, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (In millions)
 (Unaudited)

	July 31, 2016	January 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,467.3	\$ 1,353.0
Marketable securities	597.6	897.9
Accounts receivable, net	306.9	653.6
Prepaid expenses and other current assets	114.7	88.6
Total current assets	2,486.5	2,993.1
Marketable securities	505.6	532.3
Computer equipment, software, furniture and leasehold improvements, net	173.0	169.3
Developed technologies, net	66.6	70.8
Goodwill	1,597.4	1,535.0
Deferred income taxes, net	9.8	9.2
Other assets	208.5	205.6
Total assets	\$5,047.4	\$ 5,515.3
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 110.3	\$ 119.9
Accrued compensation	160.0	243.3
Accrued income taxes	54.1	29.4
Deferred revenue	1,107.1	1,068.9
Other accrued liabilities	128.1	129.5
Total current liabilities	1,559.6	1,591.0
Long-term deferred revenue	412.9	450.3
Long-term income taxes payable	42.7	161.4
Long-term deferred income taxes	66.6	67.7
Long-term notes payable, net	1,489.2	1,487.7
Other liabilities	144.7	137.6
Stockholders' equity:		
Preferred stock	—	—
Common stock and additional paid-in capital	1,857.1	1,821.5
Accumulated other comprehensive loss	(129.8)	(121.1)
Retained earnings	(395.6)	(80.8)
Total stockholders' equity	1,331.7	1,619.6
Total liabilities and stockholders' equity	\$5,047.4	\$ 5,515.3

See accompanying Notes to Condensed Consolidated Financial Statements.

AUTODESK, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (In millions)
 (Unaudited)

	Six Months Ended July 31,	
	2016	2015
Operating activities:		
Net loss	\$(265.9)	\$(249.5)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization and accretion	70.4	74.0
Stock-based compensation expense	105.9	90.9
Deferred income taxes	(9.2)	223.0
Restructuring charges and other facility exit costs, net	68.3	—
Other operating activities	(6.2)	(15.3)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	346.9	64.4
Prepaid expenses and other current assets	(23.3)	(19.4)
Accounts payable and accrued liabilities	(44.6)	(80.3)
Deferred revenue	(1.4)	79.2
Accrued income taxes	(94.5)	(3.3)
Net cash provided by operating activities	146.4	163.7
Investing activities:		
Purchases of marketable securities	(810.9)	(1,314.2)
Sales of marketable securities	354.7	187.0
Maturities of marketable securities	791.3	541.0
Capital expenditures	(42.6)	(29.8)
Acquisitions, net of cash acquired	(85.2)	(37.5)
Other investing activities	(6.7)	(13.1)
Net cash provided by (used in) investing activities	200.6	(666.6)
Financing activities:		
Proceeds from issuance of common stock, net of issuance costs	54.2	61.9
Taxes paid related to net share settlement of equity awards	(19.9)	(28.7)
Repurchases of common stock	(270.0)	(207.7)
Proceeds from debt, net of discount	—	748.3
Other financing activities	—	(6.3)
Net cash (used in) provided by financing activities	(235.7)	567.5
Effect of exchange rate changes on cash and cash equivalents	3.0	(2.1)
Net increase in cash and cash equivalents	114.3	62.5
Cash and cash equivalents at beginning of period	1,353.0	1,410.6
Cash and cash equivalents at end of period	\$1,467.3	\$1,473.1

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 July 31, 2016, and for the three and six months ended July 31, 2016 and 2015, 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 six months ended July 31, 2016 are not necessarily indicative of the results for the entire fiscal year ending January 31, 2017, or for any other period. There have been no material changes 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, 2016. 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, 2016, filed on March 23, 2016.

Prior Period Adjustments

In the course of preparing the Condensed Consolidated Financial Statements for the three and nine months ended October 31, 2015, Autodesk determined that it had understated income tax expense by \$33.1 million for the three and six months ended July 31, 2015, primarily related to an error in the establishment of the valuation allowance, which had been understated at July 31, 2015.

Autodesk performed the analysis required by Staff Accounting Bulletin 99, Materiality, to evaluate the materiality of the error, quantitatively and qualitatively, and concluded it was not material to the Company's Condensed Consolidated Financial Statements as of July 31, 2015 and for the three and six month periods ended July 31, 2015; however, in light of the significance of a correction of the error to the results for the three months ended October 31, 2015, Autodesk chose to correct the error by revising the previously reported results for the three and six months ended July 31, 2015. See Note 6, "Income Tax," in the Notes to the Condensed Consolidated Financial Statements for further discussion.

During the quarter ended April 30, 2015, Autodesk determined that it had not correctly accounted for certain liabilities primarily related to employee benefits and unclaimed property. Accordingly, during the six months ended July 31, 2015, we recorded \$5.7 million of additional operating expenses related to prior periods.

As these adjustments were related to the correction of errors, Autodesk performed the analysis required by Staff Accounting Bulletin No. 99, Materiality, and Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements. Based on this analysis, Autodesk concluded that the effect of the errors was not material to the financial position, results of operations or cash flows in fiscal 2016 or any other prior fiscal year from both a quantitative and qualitative perspective.

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 six months ended July 31, 2016, that are of significance, or potential significance, to the Company.

Accounting Standards Adopted

In March 2016, the FASB issued Accounting Standards Update No. 2016-09 ("ASU 2016-09") regarding ASC Topic 718, "Improvements to Employee Share-Based Payment Accounting." The new guidance requires excess tax benefits and tax deficiencies to be recorded in the income statement when the awards vest or are settled. In addition, cash flows related to excess tax benefits will no longer be separately classified as a financing activity apart from other income tax cash flows. The

standard also increases the amount of shares an employer can withhold for tax purposes without triggering liability accounting, clarifies that all cash payments made on an employee's behalf for withheld shares should be presented as a financing activity in the statements of cash flows, and provides an entity-wide accounting policy election to account for forfeitures as they occur.

Autodesk early adopted the standard during the three months ended July 31, 2016. Upon adoption, under the modified retrospective transition method, the Company recognized the previously unrecognized excess tax benefits as increases in deferred tax assets for tax credit and tax loss carryovers, of which \$116.5 million were available to offset liabilities for uncertain tax benefits. This reduction in liabilities for uncertain tax benefits resulted in a cumulative-effect increase of \$116.5 million to the February 1, 2016 opening retained earnings balance. Tax attributes not available to offset uncertain tax benefits were fully offset by a valuation allowance.

Autodesk elected to account for forfeitures as they occur using a modified retrospective transition method, which resulted in a cumulative-effect adjustment of \$6.9 million to reduce the February 1, 2016 opening retained earnings balance.

Autodesk elected to apply the change in presentation of excess tax benefits in the statements of cash flows retrospectively to all periods presented and no longer classifies them as a reduction from operating cash flows. However, the adoption did not impact the current or prior period presented as there were no excess tax benefits recorded. The retrospective presentation requirements for cash flows related to employee taxes paid for withheld shares had no impact to any prior period since such cash flows have historically been presented as a financing activity. Additional amendments to the accounting for minimum statutory withholding tax requirements had no impact to opening retained earnings as of February 1, 2016 as Autodesk does not withhold more than the minimum statutory requirements.

As Autodesk elected to early adopt in the second quarter of fiscal 2017, we are required to reflect any adjustments as of February 1, 2016, the beginning of the annual period that includes the interim period of adoption, and are required to revise our reported quarterly results for the three months ended April 30, 2016. Accordingly, this table reflects the retrospective adjustments made to beginning retained earnings and to the previously reported results for the three months ended April 30, 2016:

Condensed Consolidated Balance Sheets

(in millions)	As Reported April 30, 2016	ASU 2016-09 Adoption Adjustments:		As Adjusted April 30, 2016
		February 1, 2016 Retained Earnings	For The Three Months Ended April 30, 2016	
Long-term income taxes payable	\$ 153.8	\$(116.5)	\$ —	\$ 37.3
Common stock and additional paid-in capital	1,865.6	6.9	(5.3)	1,867.2
Retained earnings	\$(308.2)	\$109.6	\$ 5.3	\$(193.3)

Condensed Consolidated Statements of Operations

Edgar Filing: AUTODESK INC - Form 10-Q

(in millions, except per share data)	As Reported Three Months Ended April 30, 2016	ASU 2016-09 Adoption Increase/(Decrease)	As Adjusted Three Months Ended April 30, 2016
Cost of subscription revenue	\$ 39.7	\$ 0.1	\$ 39.8
Cost of license and other revenue	52.8	(0.2)	52.6
Gross profit	419.4	0.1	419.5
Marketing and sales	242.9	(2.1)	240.8
Research and development	195.5	(2.0)	193.5
General and administrative	75.8	(1.1)	74.7
(Loss) from operations	(155.0)	5.3	(149.7)
Provision for income taxes	(14.4)	—	(14.4)
Net (loss)	\$(173.0)	\$ 5.3	\$(167.7)
Basic and diluted weighted average shares outstanding	224.4	—	224.4
Basic and diluted net (loss) per share	\$(0.77)	\$ 0.02	\$(0.75)

Effective in the first quarter of fiscal 2017, Autodesk adopted FASB's Accounting Standards Update No. 2015-05 ("ASU 2015-05") regarding Subtopic 350-40, "Intangibles - Goodwill and Other - Internal-Use Software: Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." The amendments in this ASU provide guidance about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The amendments for ASU 2015-05 were prospectively applied and did not have a material impact on Autodesk's consolidated financial statements.

Effective in the first quarter of fiscal 2017, Autodesk adopted FASB's Accounting Standards Update No. 2015-07 ("ASU 2015-07") regarding ASC Topic 820, "Fair Value Measurement: Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)." The amendments in ASU 2015-07 remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also limit certain disclosures to investments for which the entity has elected to measure at fair value using the net asset value per share practical expedient. The amendments were applied retrospectively by removing from the fair value hierarchy any investments for which fair value is measured using the net asset value per share practical expedient. Adoption did not have a material impact on Autodesk's consolidated financial statements.

Recently Issued Accounting Standards

In June 2016, the 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. The amendments will be effective for Autodesk's fiscal year beginning February 1, 2019 unless Autodesk elects early adoption. Autodesk does not believe ASU 2016-13 will have a material impact on its consolidated financial statements.

In February 2016, the 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. ASU 2016-02 will be effective for Autodesk's fiscal year beginning February 1, 2019 unless Autodesk elects early adoption. 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, the 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, the FASB issued Accounting Standards Update No. 2014-09 ("ASU 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, the 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. ASU 2014-09 will be effective for Autodesk's fiscal year beginning February 1, 2018 unless we elect the earlier date of February 1, 2017. In addition, the FASB issued Accounting Standards Update No. 2016-08, Accounting Standards Update No. 2016-10, and Accounting Standards Update No. 2016-12 in March 2016, April 2016, and May 2016, respectively, to help provide interpretive clarifications on the new guidance in ASC Topic 606. Autodesk is currently evaluating the accounting, transition, and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

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 31% and 30% of Autodesk's total net revenue for the three and six months ended July 31, 2016, respectively, and 23% and 25% for the three and six months ended July 31, 2015, respectively. The majority of the net revenue from sales to Tech Data relates to Autodesk's Architecture, Engineering and Construction ("AEC") segment and is for sales made outside of the United States. In addition, Tech Data accounted for 31% and 22% of trade accounts receivable at July 31, 2016 and January 31, 2016, 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 July 31, 2016 and January 31, 2016:

	July 31, 2016						
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair Value	Level 1	Level 2	Level 3
Cash equivalents (1):							
Agency bonds	\$44.2	\$ —	\$ —	\$44.2	\$44.2	\$—	\$—
Certificates of deposit	181.3	—	—	181.3	181.3	—	—
Commercial paper	296.9	—	—	296.9	—	296.9	—
Corporate bonds	8.7	—	—	8.7	8.7	—	—
Custody cash deposit	22.5	—	—	22.5	22.5	—	—
Money market funds	143.8	—	—	143.8	—	143.8	—
Municipal bonds	5.0	—	—	5.0	5.0	—	—
U.S. government securities	167.0	—	—	167.0	167.0	—	—
Marketable securities:							
Short-term available-for-sale							
Agency bonds	41.9	—	—	41.9	41.9	—	—
Asset backed securities	10.8	—	—	10.8	—	10.8	—
Certificates of deposit	55.4	—	—	55.4	55.4	—	—
Commercial paper	119.4	—	—	119.4	—	119.4	—
Corporate bonds	267.2	0.2	(0.1)	267.3	267.3	—	—
Sovereign debt	19.6	—	—	19.6	—	19.6	—
U.S. government securities	37.6	—	—	37.6	37.6	—	—
Short-term trading securities							
Mutual funds	43.7	1.9	—	45.6	45.6	—	—
Long-term available-for-sale							
Agency bonds	52.0	0.3	—	52.3	52.3	—	—
Asset backed securities	58.9	0.2	—	59.1	—	59.1	—
Certificates of deposit	1.8	—	—	1.8	1.8	—	—
Corporate bonds	276.1	1.5	(0.1)	277.5	277.5	—	—
Municipal bonds	9.5	0.1	—	9.6	9.6	—	—
Sovereign debt	10.8	—	—	10.8	—	10.8	—
U.S. government securities	94.2	0.3	—	94.5	94.5	—	—
Convertible debt securities (2)	6.3	2.2	(1.1)	7.4	—	—	7.4
Derivative contracts (3)	3.2	7.1	(10.8)	(0.5)	—	(1.7)	1.2
Total	\$1,977.8	\$ 13.8	\$ (12.1)	\$1,979.5	\$1,312.2	\$658.7	\$ 8.6

(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.

Edgar Filing: AUTODESK INC - Form 10-Q

	January 31, 2016						
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair Value	Level 1	Level 2	Level 3
Cash equivalents (1):							
Agency bonds	\$8.5	\$ —	\$ —	\$8.5	\$8.5	\$—	\$—
Certificates of deposit	267.6	—	—	267.6	267.6	—	—
Commercial paper	106.6	—	—	106.6	—	106.6	—
Custody cash deposit	2.1	—	—	2.1	2.1	—	—
Money market funds	382.4	—	—	382.4	—	382.4	—
Municipal bonds	5.0	—	—	5.0	5.0	—	—
U.S. government securities	103.0	—	—	103.0	103.0	—	—
Marketable securities:							
Short-term							
available-for-sale							
Agency bonds	40.0	—	(0.1)	39.9	39.9	—	—
Asset backed securities	7.3	—	—	7.3	—	7.3	—
Certificates of deposit	190.3	—	—	190.3	190.3	—	—
Commercial paper	141.1	—	—	141.1	—	141.1	—
Corporate debt securities	377.1	0.1	(0.3)	376.9	376.9	—	—
Municipal bonds	9.7	—	—	9.7	9.7	—	—
Sovereign debt	20.1	—	—	20.1	—	20.1	—
U.S. government securities	74.6	—	—	74.6	74.6	—	—
Short-term trading securities							
Mutual funds	38.8	0.4	(1.2)	38.0	38.0	—	—
Long-term							
available-for-sale							
Agency bonds	56.8	0.1	—	56.9	56.9	—	—
Asset backed securities	36.5	0.1	—	36.6	—	36.6	—
Corporate debt securities	320.9	0.3	(0.8)	320.4	320.4	—	—
Municipal bonds	2.9	—	—	2.9	2.9	—	—
Sovereign debt	16.9	—	—	16.9	—	16.9	—
U.S. government securities	98.4	0.3	(0.1)	98.6	98.6	—	—
Convertible debt securities (2)	2.5	2.0	(1.1)	3.4	—	—	3.4
Derivative contracts (3)	1.5	7.8	(7.4)	1.9	—	1.6	0.3
Total	\$2,310.6	\$ 11.1	\$ (11.0)	\$2,310.7	\$1,594.4	\$712.6	\$ 3.7

(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.

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 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

12

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 three and six months ended July 31, 2016.

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 six months ended July 31, 2016 follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Derivative Contracts	Convertible Debt Securities	Total
Balance at January 31, 2016	\$ 0.3	\$ 3.4	\$ 3.7
Purchases	0.9	4.0	4.9
Losses included in earnings	—	(0.2)	(0.2)
Gains included in OCI	—	0.2	0.2
Balance at July 31, 2016	\$ 1.2	\$ 7.4	\$ 8.6

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

	July 31, 2016	
	Cost	Fair Value
Due within 1 year	\$555.7	\$ 556.9
Due in 1 year through 5 years	504.4	506.7
Due in 5 years through 10 years	1.4	1.4
Total	\$1,061.5	\$ 1,065.0

As of July 31, 2016 and January 31, 2016, Autodesk had no material securities, individually and in aggregate, in a continuous unrealized loss position for greater than twelve months.

As of July 31, 2016 and January 31, 2016, Autodesk had \$105.7 million and \$104.3 million, respectively, in direct investments in privately held companies accounted for under the cost method, which are periodically assessed for other-than-temporary impairment. 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 six months ended July 31, 2016 and 2015, Autodesk recorded \$0.3 million and \$0.2 million, respectively, in other-than-temporary impairment on its privately held equity investments.

The sales or redemptions of "available-for-sale securities" during the six months ended July 31, 2016 and 2015 resulted in a gain of \$0.4 million and \$0.3 million, respectively. 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 six months ended July 31, 2016 and 2015 were \$1,146.0 million and \$728.0 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 \$445.7 million at July 31, 2016 and \$142.4 million at January 31, 2016. Outstanding contracts are recognized as either assets or liabilities on the balance sheet at fair value. The majority of the net gain of \$4.7 million remaining in "Accumulated other comprehensive loss" as of July 31, 2016 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 \$88.7 million at July 31, 2016 and \$231.6 million at January 31, 2016.

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 income as "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 July 31, 2016 and January 31, 2016:

	Balance Sheet Location	Fair Value at	
		July 31, 2016	January 31, 2016
Derivative Assets			
Foreign currency contracts designated as cash flow hedges	Prepaid expenses and other current assets	\$6.7	\$ 3.4
Derivatives not designated as hedging instruments	Prepaid expenses and other current assets and Other assets	1.8	4.9
Total derivative assets		\$8.5	\$ 8.3
Derivative Liabilities			
Foreign currency contracts designated as cash flow hedges	Other accrued liabilities	\$8.0	\$ 3.4
Derivatives not designated as hedging instruments	Other accrued liabilities	1.0	3.0
Total derivative liabilities		\$9.0	\$ 6.4

The effects of derivatives designated as hedging instruments on Autodesk's Condensed Consolidated Statements of Operations were as follows for the three and six months ended July 31, 2016 and 2015 (amounts presented include any income tax effects):

	Foreign Currency Contracts Three Months Ended July 31, 2016		Foreign Currency Contracts Six Months Ended July 31, 2015	
	2016	2015	2016	2015
Amount of gain (loss) recognized in accumulated other comprehensive income on derivatives (effective portion)	\$ 1.5	\$ 4.4	\$ (4.9)	\$ 6.7
Amount and location of gain (loss) reclassified from accumulated other comprehensive income into income (effective portion)				
Net revenue	\$ 2.5	\$ 11.3	\$ 7.4	\$ 22.3
Operating expenses	0.5	(2.2)	(1.3)	(5.5)
Total	\$ 3.0	\$ 9.1	\$ 6.1	\$ 16.8
Amount and location of loss recognized in income on derivatives (ineffective portion and amount excluded from effectiveness testing)				
Interest and other expense, net	\$ (0.2)	\$ (0.2)	\$ (0.4)	\$ (0.3)

The effects of derivatives not designated as hedging instruments on Autodesk's Condensed Consolidated Statements of Operations were as follows for the three and six months ended July 31, 2016 and 2015 (amounts presented include any income tax effects):

Three Months Ended July 31,	Six Months Ended July 31,
--------------------------------------	---------------------------------

Edgar Filing: AUTODESK INC - Form 10-Q

	2016	2015	2016	2015
Amount and location of (loss) gain recognized in income on derivatives				
Interest and other expense, net	\$(3.9)	\$2.1	\$(10.9)	\$0.7

15

5. Stock-based Compensation Expense

Restricted Stock Units:

A summary of restricted stock unit activity for the six months ended July 31, 2016 is as follows:

	Unvested Restricted Stock Units (in thousands)	Weighted average grant date fair value per share
Unvested restricted stock units at January 31, 2016	7,739.6	\$ 51.80
Granted	1,538.8	57.60
Vested	(1,008.0)	) 56.00
Canceled/Forfeited	(475.7)	) 51.70
Performance Adjustment (1)	(29.7)	) 63.81
Unvested restricted stock units at July 31, 2016	7,765.0	\$ 52.66

(1) Based on Autodesk's financial results and relative total stockholder return for the fiscal 2016 performance period. The performance stock units were attained at rates ranging from 86.1% to 98.0% of the target award.

The fair value of the shares vested during the six months ended July 31, 2016 and 2015 was \$57.2 million and \$93.4 million, respectively.

During the six months ended July 31, 2016, Autodesk granted 1.1 million restricted stock units. Autodesk recorded stock-based compensation expense related to restricted stock units of \$41.5 million and \$28.0 million during the three months ended July 31, 2016 and 2015, respectively. Autodesk recorded stock-based compensation expense related to restricted stock units of \$80.3 million and \$65.8 million during the six months ended July 31, 2016 and 2015, respectively.

During the six months ended July 31, 2016, Autodesk granted 0.4 million performance stock units ("PSUs") 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. The performance criteria for these grants are based upon net new model subscription additions, new model Annualized Recurring Revenue ("ARR"), non-GAAP total spend, and total subscription renewal rate goals ("FY17 performance criteria") 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 ("Relative TSR"). Each PSU covers a three-year period:

Up to one third of the PSUs may vest following year one, depending upon the achievement of the FY17 performance criteria as well as 1-year Relative TSR (covering year one).

Up to one third of the PSUs 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).

Up to one third of the PSUs 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).

PSUs 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 a Monte Carlo simulation model since the awards are also subject to a market condition. The fair value of the PSUs is expensed using the accelerated attribution over the vesting period. Autodesk recorded stock-based compensation expense related to PSUs of \$5.9 million for both the three months ended July 31, 2016 and 2015. Autodesk recorded stock-based compensation expense related to PSUs of \$12.2 million and \$11.5 million for the six months ended July 31, 2016 and 2015, respectively.

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.

Autodesk issued 1.2 million and 1.1 million shares under the ESPP during the six months ended July 31, 2016 and 2015, respectively, with an average price of \$36.67 and \$36.91 per share, respectively. The weighted average grant date fair value of awards granted under the ESPP was \$17.88 and \$15.99 during the six months ended July 31, 2016 and 2015, respectively, 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 six months ended July 31, 2016 and 2015, respectively, as follows:

	Three Months Ended July 31,	
	2016	2015
Cost of subscription	\$1.7	\$1.2
Cost of license and other revenue	1.7	1.2
Marketing and sales	23.3	17.3
Research and development	20.2	14.8
General and administrative	7.4	6.2
Stock-based compensation expense related to stock awards and ESPP purchases	54.3	40.7
Tax benefit	—	(10.5)
Stock-based compensation expense related to stock awards and ESPP purchases, net of tax	\$54.3	\$30.2
	Six Months Ended July 31,	
	2016	2015
Cost of subscription	\$3.5	\$2.6
Cost of license and other revenue	3.3	2.7
Marketing and sales	44.8	39.0
Research and development	39.1	32.4
General and administrative	15.2	14.2
Stock-based compensation expense related to stock awards and ESPP purchases	105.9	90.9
Tax benefit	—	(24.5)
Stock-based compensation expense related to stock awards and ESPP purchases, net of tax	\$105.9	\$66.4

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 utilizes 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:

	Six Months Ended July 31, 2016		Six Months Ended July 31, 2015	
	Performance Stock Unit	ESPP	Performance Stock Unit	ESPP
Range of expected volatilities	38.4 - 38.6%	35.0 - 40.2%	27.3%	27.7 - 28.2%

Edgar Filing: AUTODESK INC - Form 10-Q

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	0.6 - 0.7%	0.5 - 0.9%	0.2%	0.1 - 0.6%

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 PSUs subject to market conditions includes the expected volatility of Autodesk's peer companies within the S&P Computer Software Select Index.

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 has elected to account for forfeitures of our stock-based awards as those forfeitures occur.

6. Income Tax

Autodesk's income tax expense was \$25.2 million and \$269.5 million for the three months ended July 31, 2016 and 2015, respectively, relative to a pre-tax loss of \$73.0 million and pre-tax income of \$0.9 million, respectively, for the same periods. Autodesk's income tax expense was \$39.6 million and \$272.2 million for the six months ended July 31, 2016 and 2015, respectively, relative to a pre-tax loss of \$226.3 million and pre-tax income of \$22.7 million, respectively, for the same periods. The decrease in income tax expense was primarily due to the valuation allowance that was established during the three months ended July 31, 2015. Income tax expense consists primarily of foreign taxes and U.S. tax expense related to indefinite-lived intangibles.

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 deferred tax assets in the three months ended July 31, 2015. Subsequently, Autodesk determined that it had understated income tax expense by \$33.1 million for the three and six months ended July 31, 2015, primarily related to an error in the establishment of the valuation allowance, which had been understated at July 31, 2015. Autodesk evaluated the materiality of the error, quantitatively and qualitatively, and concluded it was not material to the Company's condensed consolidated financial statements for the quarter ended July 31, 2015 but chose to correct the error by revising the previously reported results for the three and six months ended July 31, 2015.

The following table summarizes the impact of adjusting the condensed consolidated income statement balances presented for the three and six months ended July 31, 2015:

	As previously reported	Adjustment	As adjusted
(In millions, except per share data)	Three Months Ended July		Three Months Ended

Edgar Filing: AUTODESK INC - Form 10-Q

	31, 2015		July 31, 2015
Provision for income tax	\$ (236.4)	\$ (33.1)	\$(269.5)
Net loss	(235.5)	(33.1)	(268.6)
Basic and diluted net loss per share	\$ (1.04)	\$ (0.14)	\$(1.18)

	Six Months Ended July 31, 2015	Adjustment	Six Months Ended July 31, 2015
Provision for income tax	\$ (239.1)	\$ (33.1)	\$(272.2)
Net loss	(216.4)	(33.1)	(249.5)
Basic and diluted net loss per share	\$ (0.95)	\$ (0.15)	\$(1.10)

The following table summarizes the impact of adjusting the Condensed Consolidated Balance Sheet balances as of July 31, 2015:

(In millions)	As previously reported	Adjustment	As adjusted
	July 31, 2015		July 31, 2015
Current deferred tax liabilities (1)	\$ 8.3	\$ 1.2	\$ 9.5
Accrued income taxes	52.3	(29.4)	22.9
Long-term deferred tax liabilities	28.9	25.1	54.0
Long-term income tax payable	124.0	36.2	160.2
Retained earnings	\$ 164.4	\$ (33.1)	\$ 131.3

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

As of July 31, 2016, the Company had \$261.6 million of gross unrecognized tax benefits, excluding interest, of which approximately \$246.9 million represents the amount of unrecognized tax benefits that would impact the effective tax rate, if recognized. However, this rate impact would be offset 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.

During the three months ended July 31, 2016, the Company proposed a settlement of a tax audit in China covering certain transfer pricing matters from 2004-2013. The settlement is currently under review by the State Administration of Taxation. The estimated tax liability, including interest, is approximately \$11.4 million for the years under audit and calendar years 2014 and 2015. The Company accrued this tax liability during the three months ended July 31, 2016.

The Internal Revenue Service has notified the Company that it intends to begin 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 to be examined.

7. Acquisitions

During the six months ended July 31, 2016, Autodesk completed several business combinations and technology acquisitions for total cash consideration of approximately \$87.0 million. Pro forma results of operations have not been presented because the effects of the acquisitions, individually and in the aggregate, were not material to Autodesk's Condensed Consolidated Financial Statements.

For acquisitions accounted for as business combinations, Autodesk recorded 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 recorded 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.

The following table summarizes the fair value of the assets acquired and liabilities assumed by major class for the business combinations and technology acquisitions completed during the six months ended July 31, 2016:

	July 31, 2016
Developed technologies	\$18.8
Customer relationships and other non-current intangible assets	10.2
Trade name	3.8
Goodwill	62.8
Deferred revenue (current and non-current)	(2.1)
Deferred tax liability	(7.1)
Net tangible assets	0.6
Total	\$87.0

For certain business combinations, the allocation of purchase price consideration to certain assets and liabilities is not yet finalized. For the items not yet finalized, Autodesk's estimates and assumptions are subject to change within the measurement period (up to one year from the acquisition date). The primary areas of the preliminary purchase price allocation that are not yet finalized are amounts for tax assets and liabilities, pending finalization of estimates and assumptions in respect of certain tax aspects of the transaction and residual goodwill, and the valuation of certain intangible assets.

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:

	July 31, January 31,	
	2016	2016
Developed technologies, at cost	\$587.6	\$ 571.4
Customer relationships, trade names, patents, and user lists, at cost (1)	384.8	371.6
Other intangible assets, at cost (2)	972.4	943.0
Less: Accumulated amortization	(832.3)	(796.2)
Other intangible assets, net	\$140.1	\$ 146.8

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

(2) Includes the effects of foreign currency translation.

9. Goodwill

The change in the carrying amount of goodwill by reportable segment during the six months ended July 31, 2016 is as follows:

	Platform Solutions and Emerging Business	Architecture, Engineering and Construction	Manufacturing	Media and Entertainment	Total
Balances as of January 31, 2016					
Goodwill	\$ 386.9	\$ 427.2	\$ 613.9	\$ 256.2	\$1,684.2
Accumulated impairment losses	—	—	—	(149.2)	(149.2)
	386.9	427.2	613.9	107.0	1,535.0
Addition arising from other acquisitions	17.4	—	13.6	31.8	62.8
Effect of foreign currency translation, purchase accounting adjustments, and other	0.7	2.0	(3.5)	0.4	(0.4)
Balances as of July 31, 2016					
Goodwill	405.0	429.2	624.0	288.4	1,746.6
Accumulated impairment losses	—	—	—	(149.2)	(149.2)
	\$ 405.0	\$ 429.2	\$ 624.0	\$ 139.2	\$1,597.4

Goodwill consists of the excess of consideration transferred over the fair value of net assets acquired in business combinations. Autodesk assigns goodwill to the reporting unit associated with each business combination, and tests goodwill for impairment annually in its fourth fiscal quarter or more often if circumstances indicate a potential impairment. The company has established reporting units based upon its current reporting structure.

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 two-step 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 two-step impairment test is unnecessary.

Therefore, the two-step 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. In performing the two-step impairment test, Autodesk uses discounted cash flow models which include assumptions regarding projected cash flows. Variances in these assumptions could have a significant impact on Autodesk's conclusion as to whether goodwill is impaired, or the amount of any impairment charge. Impairment charges, if any, result from instances where the fair values of net assets associated with goodwill are less than their carrying values. As changes in business conditions and assumptions occur, Autodesk may be required to record impairment charges. 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: (i) declines in Autodesk's actual financial results, (ii) a sustained decline in Autodesk's market capitalization, (iii) significant slowdown in the worldwide economy or the industries Autodesk serves, or (iv) changes in Autodesk's business strategy or internal financial results forecasts.

10. Deferred Compensation

At July 31, 2016, Autodesk had marketable securities totaling \$1.1 billion, of which \$45.6 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 \$45.6 million at July 31, 2016, of which \$2.1 million was classified as current and \$43.5 million was classified as non-current liabilities. The total related deferred compensation liability at January 31, 2016 was \$38.0 million, of which \$1.9 million was classified as current and \$36.1 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:

	July 31, January 31,	
	2016	2016
Computer hardware, at cost	\$211.3	\$ 202.7
Computer software, at cost	94.2	85.6
Leasehold improvements, land and buildings, at cost	202.1	202.9
Furniture and equipment, at cost	59.0	59.0
	566.6	550.2
Less: Accumulated depreciation	(393.6)	(380.9)
Computer software, hardware, leasehold improvements, furniture and equipment, net	\$ 173.0	\$ 169.3

12. Borrowing Arrangements

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 \$791.8 million as of July 31, 2016.

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. Autodesk may redeem the 2012 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 2012 Notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest to the date of repurchase. The 2012 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 2012 Notes was approximately \$763.1 million as of July 31, 2016.

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. The financial covenants consist of a

leverage ratio, and an 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 July 31, 2016, 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's Fiscal 2017 Plan consist of employee termination benefits related to the reduction of its workforce with expected costs of approximately \$69.0 million, and lease terminations and other exit costs expected to be approximately \$10.0 million.

During the three and six months ended July 31, 2016, restructuring charges under the Fiscal 2017 Plan included \$8.0 million and \$55.7 million in employee termination benefits, respectively, and \$0.6 million and \$5.2 million in other facility exit costs, respectively. Additionally, during the three and six months ended July 31, 2016, we incurred \$7.4 million in lease termination costs not related to the Fiscal 2017 Plan. Other costs primarily consist of legal, consulting, and other costs related to employee terminations and are expensed when incurred.

The Company expects to pay 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 facility exit costs during the six months ended July 31, 2016:

	Balance at January 31, 2016	Additions	Payments	Adjustments (1)	Balance at July 31, 2016
Fiscal 2017 Plan					
Employee termination costs	\$	—\$ 55.7	\$ (48.4)	\$ —	\$ 7.3
Lease termination and other exit costs	—	5.2	(2.1)	(1.9)	1.2
Other Lease Termination Costs					
Lease termination costs	—	7.4	(0.2)	(3.5)	3.7
Total	\$	—\$ 68.3	\$ (50.7)	\$ (5.4)	\$ 12.2
Current portion (2)	\$	—			\$ 10.3
Non-current portion (2)	—				1.9
Total	\$	—			\$ 12.2

(1) Adjustments include the impact of computer equipment, software, furniture, straight-line rent and leasehold improvement write-offs, and foreign currency translation.

(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. 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 six months ended July 31, 2016, Autodesk repurchased and retired 3.0 million and 4.8 million shares at an average repurchase price of \$55.88 and \$56.20 per share, respectively. Common stock and additional paid-in capital and retained earnings were reduced by \$65.8 million and \$104.1 million, respectively, during the three months ended July 31, 2016. Common stock and additional paid-in capital and retained earnings were reduced by \$111.5 million and \$158.5 million, respectively, during the six months ended July 31, 2016.

At July 31, 2016, 1.5 million shares remained available for repurchase under the repurchase program approved by the Board of Directors. During the six months ended July 31, 2016, 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 July 31, 2016:

	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, 2016	\$ 15.7	\$ 0.2	\$ (28.3)	\$ (108.7)	\$(121.1)
Other comprehensive (loss) income before reclassifications	(4.1)	4.5	(0.2)	(1.4)	(1.2)
Pre-tax (gains) losses reclassified from accumulated other comprehensive loss	(6.1)	(0.5)	0.7	—	(5.9)
Tax effects	(0.8)	(0.6)	(0.2)	—	(1.6)
Net current period other comprehensive (loss) income	(11.0)	3.4	0.3	(1.4)	(8.7)
Balances, July 31, 2016	\$ 4.7	\$ 3.6	\$ (28.0)	\$ (110.1)	\$(129.8)

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, 2016.

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 July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Numerator:				
Net loss	\$(98.2)	\$(268.6)	\$(265.9)	\$(249.5)
Denominator:				
Denominator for basic net loss per share—weighted average shares	223.2	227.0	223.8	227.1
Effect of dilutive securities (1)	—	—	—	—
Denominator for dilutive net loss per share	223.2	227.0	223.8	227.1
Basic net loss per share	\$(0.44)	\$(1.18)	(1.19)	(1.10)
Diluted net loss per share	\$(0.44)	\$(1.18)	(1.19)	(1.10)

(1) The effect of dilutive securities of 4.2 million shares and 4.1 million shares for the three months ended July 31, 2016 and 2015, 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 effect of dilutive securities of 4.0 million and 4.5 million shares for the six months ended July 31, 2016 and 2015, 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 the three months ended July 31, 2016, no potentially anti-dilutive shares were excluded from the computation of diluted net loss per share. For the three months ended July 31, 2015, 0.6 million potentially anti-dilutive shares were excluded from the computation of diluted net loss per share. For both the six months ended July 31, 2016 and 2015, 0.1 million potentially anti-dilutive shares were excluded from the computation of diluted net loss per share, respectively.

18. Segments

Autodesk reports segment information based on the "management" approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of the Company's reportable segments. Autodesk has four reportable segments: AEC, Manufacturing ("MFG"), Platform Solutions and Emerging Business ("PSEB"), and Media and Entertainment ("M&E"). Autodesk has no material inter-segment revenue.

The AEC, MFG, and PSEB segments derive revenue from the sale of licenses for software products and services to customers who design, build, manage or own building, manufacturing and infrastructure projects. Autodesk's M&E segment derives revenue from the sale of products to creative professionals, post-production facilities and broadcasters for a variety of applications, including feature films, television programs, commercials, music and corporate videos, interactive game production, web design and interactive web streaming.

AEC software products help to improve the way building, civil infrastructure, process plant and construction projects are designed, built and managed. A broad portfolio of solutions enables greater efficiency, accuracy and sustainability across the entire project lifecycle. Autodesk AEC solutions include advanced technology for Building Information Modeling ("BIM"), AutoCAD-based design and documentation productivity software, sustainable design analysis applications, and collaborative project management solutions. BIM, an integrated process for building and infrastructure design, analysis, documentation and construction, uses consistent, coordinated information to improve communication and collaboration between the extended project team. AEC provides a comprehensive portfolio of BIM solutions that help customers deliver projects faster and more economically, while minimizing environmental impact. AEC's revenue primarily includes revenue from the sales of licenses of Autodesk Building Design Suites, Autodesk Infrastructure Design Suites, AutoCAD Civil 3D, AutoCAD Map 3D, and AutoCAD Architecture.

MFG provides the manufacturers in automotive and transportation, industrial machinery, consumer products and building products with comprehensive digital prototyping solutions that bring together design data from all phases of the product development process to develop a single digital model created in Autodesk Inventor software. Autodesk's solutions for digital prototyping enable a broad group of manufacturers to realize benefits with minimal disruption to existing workflows. MFG's revenue primarily includes revenue from the sales of licenses of Autodesk Product Design Suites, Autodesk Delcam products, AutoCAD Mechanical, and Autodesk Moldflow products.

PSEB includes Autodesk's design product, AutoCAD. Autodesk's AutoCAD product is a platform product that underpins the Company's design product offerings for the industries it serves. For example, AEC and MFG offer tailored versions of AutoCAD software for the industries they serve. Autodesk's AutoCAD product also provides a platform for Autodesk's developer partners to build custom solutions for a range of diverse design-oriented markets. PSEB's revenue primarily includes revenue from sales of AutoCAD and AutoCAD LT, the AutoCAD Design Suite and many other design products, including consumer design products, as well as from sales of licenses of other Autodesk's design products.

M&E provides content creators in film, television, commercials, video games, design visualization and VR the tools needed to connect artists together so they can create the world's most engaging visual content. M&E products run on the desktop, on mobile devices, and in the cloud and cover a broad range of capabilities including conceptualization, modeling, animation, visual effects, collaboration, authoring, and rendering. Key products include Maya and 3ds Max, which are used extensively for 3D modeling and animation in the world's most famous movies, TV shows, and video games; Flame, for visual effects, finishing and color grading in commercials, film & television; MotionBuilder, for 3D character animation software in virtual production; Stingray, a real-time 3D game engine for creating video games, interactive & immersive experiences; Shotgun, a cloud platform for enabling collaboration and production management; Sketchbook & Graphic for concept design and illustration; and Arnold rendering software that offers advanced, efficient, high-quality rendering capabilities that are scalable to the cloud.

All of Autodesk's reportable segments distribute their respective products primarily through authorized resellers and distributors and, to a lesser extent, through direct sales to end-users.

The accounting policies of the reportable segments are the same as those described in Note 1, "Business and Summary of Significant Accounting Policies" of Autodesk's Annual Report on Form 10-K for the fiscal year ended January 31, 2016. Autodesk evaluates each segment's performance on the basis of gross profit. Autodesk currently does not separately accumulate and report asset information by segment, except for goodwill, which is disclosed in Note 9, "Goodwill."

Information concerning the operations of Autodesk's reportable segments is as follows:

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Net revenue:				
Architecture, Engineering and Construction	\$253.2	\$233.4	\$472.1	\$470.1
Manufacturing	176.9	171.2	334.9	355.8
Platform Solutions and Emerging Business	86.2	164.1	186.2	349.4
Media and Entertainment	34.4	40.8	69.4	80.7
	\$550.7	\$609.5	\$1,062.6	\$1,256.0
Gross profit:				
Architecture, Engineering and Construction	\$229.1	\$209.5	\$422.7	\$426.5
Manufacturing	156.4	151.2	292.5	309.3

Edgar Filing: AUTODESK INC - Form 10-Q

Platform Solutions and Emerging Business	65.5	138.5	141.6	301.8
Media and Entertainment	28.7	31.7	56.7	64.4
Unallocated (1)	(14.1)	(14.4)	(28.4)	(30.8)
	\$465.6	\$516.5	\$885.1	\$1,071.2

(1) Unallocated amounts primarily relate to corporate expenses and other costs and expenses that are managed outside the reportable segments, including stock-based compensation expense.

Information regarding Autodesk's operations by geographic area is as follows:

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Net revenue:				
Americas				
U.S.	\$195.2	\$194.5	\$379.9	\$394.1
Other Americas	34.9	41.2	67.9	85.6
Total Americas	230.1	235.7	447.8	479.7
Europe, Middle East and Africa	220.5	225.7	423.1	471.1
Asia Pacific				
Japan	36.8	50.7	74.1	115.8
Other Asia Pacific	63.3	97.4	117.6	189.4
Total Asia Pacific	100.1	148.1	191.7	305.2
Total net revenue	\$550.7	\$609.5	\$1,062.6	\$1,256.0

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS 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 Six Months Ended July 31, 2016 and 2015" and "Business Outlook" below, anticipated future net revenue, future GAAP and non-GAAP net (loss) income per share, operating margin, operating expenses, billings, annualized recurring revenue, annualized revenue per subscription, other future financial results (by product type and geography) and subscriptions, 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, 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, our backlog, 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, 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, continuation of our stock repurchase program, remediations 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 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 the factors 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's vision is to help people imagine, design, and create a better world. We do this by developing software and services for the world's designers, architects, engineers, digital artists, professionals, and non-professionals alike— who design and make the world's places (architecture, engineering, and construction), things (manufacturing), and media (games and digital entertainment).

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 represent a hybrid of desktop software and SaaS functionality, which provides a device-independent, collaborative design workflow for designers and their stakeholders. Our cloud service offerings, for example, Autodesk BIM 360, Fusion 360, and AutoCAD 360 Pro, provide tools, including mobile and social capabilities, to help streamline design, collaboration, 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. We now offer term-based product subscriptions for individual products and industry collections, cloud service offerings, and flexible enterprise business agreements ("new model subscription offerings"). These offerings are designed to give our customers more flexibility with how they use our products and service offerings and to address new types of customers such as project-based users and small businesses. As part of this 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.

With the discontinuation of the sale of most perpetual licenses, we have accelerated our transition away from selling a hybrid of perpetual licenses and term-based product subscriptions toward a single subscription model. During the transition, revenue, gross margin, operating margin, earnings (loss) per share, deferred revenue, billings, and cash flow from operations will be impacted as more revenue is recognized ratably rather than up front and as new offerings bring a wider variety of price points.

As we progress through the business model transition, billings and reported revenue are less relevant to measure the success of the business as perpetual license sales are discontinued in favor of subscription offerings, which have considerably lower up-front prices. Annualized recurring revenue ("ARR") and growth of subscriptions will better reflect business momentum and provide additional transparency into the transition. To further analyze progress, we will also disaggregate our growth in these metrics between the original maintenance model ("maintenance") and the new model subscription offerings. We expect maintenance subscriptions to peak as perpetual license sales end this year, and we expect them to decline slowly over time.

Autodesk sells our products and services globally, through a combination of indirect and direct channels. During the three months ended July 31, 2016 and 2015, our indirect channels, which include value added resellers, direct market resellers, distributors, computer manufacturers, and other software developers, were responsible for 75% and 80% of our overall revenue, respectively. During the same periods, our direct channels, which include sales resources dedicated to selling in our largest accounts, our highly specialized products, and business transacted through our company estore, were responsible for 25% and 20% of our overall revenue, respectively. During the six months ended July 31, 2016 and 2015, our indirect channels, which include value added resellers, direct market resellers, distributors, computer manufacturers, and other software developers, were responsible for 75% and 81% of our overall revenue, respectively. During the same periods, our direct channels, which include sales resources dedicated to selling in our largest accounts, our highly specialized products, and business transacted through our company estore, were responsible for 25% and 19% of our overall revenue, respectively.

We anticipate that our channel mix will continue to change, particularly as we scale our digitally transacted e-store business and our largest accounts shift towards direct-only business models. Importantly, our indirect channel will continue to transact and support the majority of our 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 Spark program to support ideas that push the boundaries of 3D printing and nurture the companies that will advance innovations within 3D printing hardware and software. We have also created 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.

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. 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 licenses 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. In fiscal 2016, we also 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

28

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, 2016. 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. 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 Six Months Ended July 31, 2016 and 2015

(in millions)	Three Months Ended July 31, 2016	As a % of Net Revenue		Change compared to prior fiscal year			Three Months Ended July 31, 2015	As a % of Net Revenue	
		\$	%	\$	%	%		\$	%
Net Revenue	\$550.7	100	%	\$(58.8)	(10)	)%	\$609.5	100	%
Cost of revenue	85.1	15	%	(7.9)	(8)	)%	93.0	15	%
Gross Profit	465.6	85	%	(50.9)	(10)	)%	516.5	85	%
Operating expenses	528.5	96	%	16.3	3	%	512.2	84	%
(Loss) income from operations	\$(62.9)	(11)	)%	\$(67.2)	(1,563)	)%	\$4.3	1	%

	Six Months Ended July 31, 2016	As a % of Net Revenue		Change compared to prior fiscal year			Six Months Ended July 31, 2015	As a % of Net Revenue	
		\$	%	\$	%	%		\$	%
Net Revenue	\$1,062.6	100	%	\$(193.4)	(15)	)%	\$1,256.0	100	%
Cost of revenue	177.5	17	%	(7.3)	(4)	)%	184.8	15	%
Gross Profit	885.1	83	%	(186.1)	(17)	)%	1,071.2	85	%
Operating expenses	1,097.7	103	%	52.3	5	%	1,045.4	83	%

Edgar Filing: AUTODESK INC - Form 10-Q

(Loss) income from operations \$(212.6) (20)% \$(238.4) (924)% \$25.8 2 %

We are undergoing a business model transition in which we have discontinued selling new perpetual licenses for most of our products in favor of new model subscriptions. During the transition, revenue, gross margin, operating margin, earnings (loss) per share, deferred revenue, billings, and cash flow from operations will be impacted as more revenue is recognized ratably rather than up front and as new offerings bring a wider variety of price points.

Revenue Analysis

Net revenue decreased during the three months ended July 31, 2016, as compared to the same period in the prior fiscal year, primarily due to a 21% decrease in license and other revenue, partially offset by a 1% increase in subscription revenue. The 21% decrease in license and other revenue was primarily a result of the discontinuation of the sale of most individual perpetual products as of February 1, 2016. The 1% increase in subscription revenue was primarily driven by a 38% increase in revenue from our new model subscription offerings, partially offset by a 3% decrease in maintenance revenue.

Net revenue decreased during the six months ended July 31, 2016, as compared to the same period in the prior fiscal year, primarily due to a 33% decrease in License and other revenue, partially offset by a 1% increase in subscription revenue. The 33% decrease in License and other revenue was primarily a result of the discontinuation of the sale of most individual perpetual products as of February 1, 2016. The 1% increase in subscription revenue was primarily driven by a 36% increase in revenue from our new model subscription offerings, partially offset by a 2% decrease in maintenance revenue.

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 31% and 30% of Autodesk’s total net revenue for the three and six months ended July 31, 2016, respectively, and 23% and 25% for the three and six months ended July 31, 2015, 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 and us 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 decreased to (11)% for the three months ended July 31, 2016 from 1% for the three months ended July 31, 2015. The decrease in operating margin was primarily driven by a decrease in revenue related to the discontinuation of the sale of most individual perpetual products as of February 1, 2016 and an increase in operating expenses during the three months ended July 31, 2016. The increase in operating expenses was primarily driven by restructuring charges and other facility exit costs during the three months ended July 31, 2016.

Our operating margin decreased to (20)% for the six months ended July 31, 2016 from 2% for the six months ended July 31, 2015. The decrease in operating margin was primarily driven by a decrease in revenue and an increase in operating expenses during the six months ended July 31, 2016. The increase in operating expenses was primarily driven by restructuring charges and other facility exit costs during the six months ended July 31, 2016.

Further discussion regarding the cost of goods sold and operating expense activities are discussed below under the heading “Results of Operations.”

Business Model Transition Metrics

In order to help better understand our financial performance during and after the transition, we have introduced several new metrics including recurring revenue, total subscriptions, ARR, and annualized revenue per subscription (“ARPS”). ARR and ARPS are performance metrics and should be viewed independently of revenue and deferred

revenue as ARR and ARPS are not intended to be combined with those items. Please refer to the Glossary of Terms for further discussion regarding the new metric terminology.

Recurring revenue represents the revenue for the period from our traditional maintenance plans and revenue from our new model subscription offerings, including portions of revenue allocated to license & other revenue for those offerings. It excludes subscription revenue related to consumer product offerings, select Creative Finishing product offerings, Autodesk Buzzsaw, Autodesk Constructware, education offerings, and third party products. Recurring revenue acquired with the acquisition of a business is captured and may cause variability in the comparison of this calculation.

Edgar Filing: AUTODESK INC - Form 10-Q

The following table outlines our recurring revenue for the three and six months ended July 31, 2016 and July 31, 2015:

	Three Months Ended July 31, 2016			Change compared to prior fiscal year			Three Months Ended July 31, 2015			Six Months Ended July 31, 2016			Change compared to prior fiscal year			Six Months Ended July 31, 2015		
	\$		%	\$		%	\$		%	\$		%	\$		%	\$		%
(in millions)																		
Subscription revenue	\$322.0	\$ 3.0	1	%	\$319.0	\$648.0	\$ 9.2	1	%	\$638.8								
Add: License and other revenue from new model subscription offerings (1)	53.3	29.8	127	%	23.5	93.5	51.2	121	%	42.3								
Less: other adjustments (2)	(8.0)	0.2	(2)	%	(8.2)	(15.3)	1.3	(8)	%	(16.6)								
Total recurring revenue (3)	\$367.3	\$ 33.0	10	%	\$334.3	\$726.2	\$ 61.7	9	%	\$664.5								

(1) Includes the portion of revenue for new model subscription offerings allocated to license & other revenue within our Condensed Consolidated Statements of Operations.

Other adjustments include subscription revenue related to select Creative Finishing product offerings, Autodesk (2) Buzzsaw, Autodesk Constructware, education offerings, and third party products which are excluded from recurring revenue.

(3) Total recurring revenue as presented may not recalculate on an annualized basis to total ARR in the next table due to rounding.

During the three months ended July 31, 2016 and 2015, recurring revenue was 67% and 55% of total net revenue, respectively. During the six months ended July 31, 2016 and 2015, recurring revenue was 68% and 53% of total net revenue, respectively.

The following table outlines our total subscriptions, ARR and ARPS metrics as of July 31, 2016, April 30, 2016, and January 31, 2016:

	Balances, July 31, 2016		Change compared to prior quarter end		Balances, April 30, 2016		Balances, July 31, 2016		Change compared to prior fiscal year end		Balances, January 31, 2016	
	\$		\$	%	\$		\$		\$	%	\$	
(in thousands)												
Maintenance subscriptions	2,127.0	(16.3)	(1)	%	2,143.3	2,127.0	(24.0)	(1)	%	2,151.0		
New model subscriptions	692.7	125.8	22	%	566.9	692.7	265.5	62	%	427.2		
Total subscriptions	2,819.7	109.5	4	%	2,710.2	2,819.7	241.5	9	%	2,578.2		

(in millions)

Maintenance ARR	\$ 1,097.7	\$(29.9)	(3)	%	\$ 1,127.6	\$ 1,097.7	\$(23.7)	(2)	%	\$ 1,121.4		
New model ARR	371.3	63.3	21	%	308.0	371.3	116.3	46	%	255.0		
Total ARR	\$ 1,469.0	\$33.4	2	%	\$ 1,435.6	\$ 1,469.0	\$ 92.6	7	%	\$ 1,376.4		

(ARR divided by Subscriptions)

Maintenance ARPS	\$ 516	\$(10)	(2)	%	\$ 526	\$ 516	\$(5)	(1)	%	\$ 521		
------------------	--------	---------	------	---	--------	--------	--------	------	---	--------	--	--

Edgar Filing: AUTODESK INC - Form 10-Q

New Model ARPS	536	(7)	(1)%	543	536	(61)	(10)%	597
Total ARPS	\$521	\$(9)	(2)%	\$530	\$521	\$(13)	(2)%	\$534

Total subscriptions increased 4% or 109,000 from the end of the first quarter of fiscal 2017 to 2.82 million as of July 31, 2016. Maintenance subscriptions decreased 16,000 from the end of the first quarter of fiscal 2017, primarily as a result of the discontinuation of new perpetual license sales for most individual products at the end of the fourth quarter of fiscal 2016. New model subscriptions increased 22% or 125,000 as of July 31, 2016 as compared to the end of the first quarter of fiscal 2017, primarily driven by growth in all new model subscription types, led by product subscription.

Total subscriptions increased 9% or 241,000 from the fourth quarter of fiscal 2016 to 2.82 million as of July 31, 2016. Maintenance subscriptions decreased 24,000 from the end of fiscal 2016, primarily as a result of the discontinuation of new perpetual license sales for most individual products at the end of the fourth quarter of fiscal 2016. New model subscriptions

increased 62% or 265,000 as of July 31, 2016 as compared to the end of fiscal 2016, primarily driven by growth in all new model subscription types, led by product subscription.

ARR increased 2% or \$33.4 million from the first quarter of fiscal 2017 to \$1,469.0 million as of July 31, 2016, primarily due to a 21% increase in new model ARR driven by growth in all new model subscription types, led by product subscription.

ARR increased 7% or \$92.6 million from the fourth quarter of fiscal 2016 to \$1,469.0 million as of July 31, 2016, primarily due to a 46% increase in new model ARR driven by growth in all new model subscription types, led by product subscription.

ARPS decreased 2% from the first quarter of fiscal 2017 to \$521 as of July 31, 2016 primarily due to a 2% decrease in maintenance ARPS, which decreased as a result of a decrease in hedging gains and a linearity shift in new subscription billings.

ARPS decreased 2% from the fourth quarter of fiscal 2016 to \$521 as of July 31, 2016 primarily due to a 10% decrease in new model ARPS, which decreased as a result of individual product subscriptions leading the growth in new model subscriptions, which are priced lower than our flexible enterprise business agreements.

Foreign Currency Analysis

We generate a significant amount of our revenue in the U.S., Germany, Japan, the United Kingdom, and Canada. Our revenue was negatively impacted by foreign exchange rate changes during the three months ended July 31, 2016 as compared to the same period in the prior fiscal year. Had applicable exchange rates from the three months ended July 31, 2015 been in effect during the three months ended July 31, 2016 and had we excluded foreign exchange hedge gains and losses from the three months ended July 31, 2016, net revenue would have decreased 6% on a constant currency basis during the three months ended July 31, 2016 as compared to the same period in the prior fiscal year.

Our revenue was negatively impacted by foreign exchange rate changes during the six months ended July 31, 2016 as compared to the same period in the prior fiscal year. Had applicable exchange rates from the six months ended July 31, 2015 been in effect during the six months ended July 31, 2016 and had we excluded foreign exchange hedge gains and losses from the six months ended July 31, 2016, net revenue would have decreased 12% on a constant currency basis during the six months ended July 31, 2016 as compared to the same period in the prior fiscal year.

Our total spend, defined as cost of revenue plus operating expenses, during the three months ended July 31, 2016 increased 1%, on an as reported basis as compared to the same period in the prior fiscal year. Had applicable exchange rates from the three months ended July 31, 2015 been in effect during the three months ended July 31, 2016 and had we excluded foreign exchange hedge gains and losses from the three months ended July 31, 2016, total spend would have increased 3%, on a constant currency basis compared to the same period in the prior fiscal year.

Our total spend during the six months ended July 31, 2016 increased 4%, on an as reported basis as compared to the same period in the prior fiscal year. Had applicable exchange rates from the six months ended July 31, 2015 been in effect during the six months ended July 31, 2016 and had we excluded foreign exchange hedge gains and losses from the six months ended July 31, 2016, total spend would have increased 5%, on a constant currency basis compared to the same period in the prior fiscal year.

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.

Balance Sheet and Cash Flow Items

At July 31, 2016, we had \$2.6 billion in cash and marketable securities. We completed the six months ended July 31, 2016 with lower accounts receivable and higher deferred revenue balances as compared to the fiscal year ended January 31, 2016. Our deferred revenue balance at July 31, 2016 was \$1.5 billion, which 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. Our cash flow from operations decreased 11% to \$146.4 million for the six months ended July 31, 2016 compared to \$163.7 million for the six months ended July 31, 2015. We repurchased 3.0 million and 4.8 million shares of our common stock for \$169.9 million and \$270.0 million during the three and six months ended July 31, 2016, respectively. Comparatively, we repurchased 2.1 million and 3.7 million

shares of our common stock for \$112.3 million and \$207.7 million during the three and six months ended July 31, 2015, respectively. Further discussion regarding the balance sheet and cash flow activities are discussed below under the heading “Liquidity and Capital Resources.”

Business Outlook

Autodesk is undergoing a business model transition in which the company has discontinued selling new perpetual licenses in favor of subscriptions and flexible license arrangements. During the transition, revenue, gross margin, operating margin, EPS, deferred revenue, and cash flow from operations will be impacted as more revenue is recognized ratably rather than up front and as new offerings generally have a lower initial purchase price. We expect our business model transition to expand our customer base by eliminating higher up-front licensing costs and provide more flexibility in how customers gain access to and pay for our products. We expect this business model transition will increase our long-term revenue growth rate by increasing total subscriptions, ARR, and customer value over time.

In February 2016, we commenced a restructuring plan to reduce headcount by approximately 10% and to consolidate certain facilities around the world in order to accelerate the Company’s transition to a subscription-based business model and its move to the cloud. Through the restructuring, we seek to reduce expenses, streamline the organization, and reallocate resources to align more closely with the Company’s needs going forward. See further discussion of our restructuring plan in Note 13, “Restructuring charges and other facility exit costs, net” of the Notes to Condensed Consolidated Financial Statements. As a result of these actions, we have incurred and will incur additional costs in the short term that negatively impact our net income and cash flows from operating activities and have the effect of reducing our operating margins.

Q3 FY17 Guidance Metrics	Q3 FY17 (ending October 31, 2016)
Revenue (in millions)	\$470 - \$485
EPS GAAP	(\$0.81) - (\$0.74)
EPS non-GAAP (1)	(\$0.27) - (\$0.22)

Non-GAAP earnings per diluted share excludes \$0.27 related to stock-based compensation expense, between \$0.15 (1) and \$0.13 related to GAAP-only tax charges, \$0.08 for the amortization of acquisition related intangibles, and \$0.04 related to restructuring charges and other facility exit costs.

FY17 Guidance Metrics	FY17 (ending January 31, 2017)
Revenue (in millions) (1)	\$2,000 - \$2,050
GAAP spend growth (cost of revenue plus operating expenses)	Approx. 2%
Non-GAAP spend growth (cost of revenue plus operating expenses) (2)	Approx. (2%)
EPS GAAP	(\$2.97) - (\$2.74)
EPS non-GAAP (3)	(\$0.70) - (\$0.55)
Net subscription additions	475,000 - 525,000

(1) Excluding the impact of foreign currency exchange rates and hedge gains/losses, revenue guidance would be \$2,045 - \$2,095 million.

Non-GAAP spend excludes \$226 million related to stock-based compensation expense, \$86 million related to (2) restructuring charges and other facility exit costs, and \$69 million for the amortization of acquisition-related intangibles.

Non-GAAP earnings per diluted share excludes \$1.01 related to stock-based compensation expense, between \$0.56 (3) and \$0.48 of GAAP-only tax charges, \$0.39 related to restructuring charges and other facility exit costs, and \$0.31 for the amortization of acquisition-related intangibles.

We remain diligent about managing our spend while making essential investments to drive growth.

33

Results of Operations

Net Revenue

(in millions)	Three	Change compared to		Three	Six	Change		Six
	Months	prior fiscal year		Months	Months	compared to		Months
	Ended			Ended	Ended			Ended
	July 31,	\$	%	July 31,	July 31,	\$	%	July 31,
	2016			2015	2016			2015
Net Revenue:								
Subscription	\$ 322.0	\$ 3.0	1 %	\$ 319.0	\$ 648.0	\$ 9.2	1 %	\$ 638.8
License and other	228.7	(61.8)	(21)%	290.5	414.6	(202.6)	(33)%	617.2
	\$ 550.7	\$ (58.8)	(10)%	\$ 609.5	\$ 1,062.6	\$(193.4)	(15)%	\$ 1,256.0
Net Revenue by Operating Segment:								
Architecture, Engineering and Construction	\$ 253.2	\$ 19.8	8 %	\$ 233.4	\$ 472.1	\$ 2.0	— %	\$ 470.1
Manufacturing	176.9	5.7	3 %	171.2	334.9	(20.9)	(6)%	355.8
Platform Solutions and Emerging Business	86.2	(77.9)	(47)%	164.1	186.2	(163.2)	(47)%	349.4
Media and Entertainment	34.4	(6.4)	(16)%	40.8	69.4	(11.3)	(14)%	80.7
	\$ 550.7	\$ (58.8)	(10)%	\$ 609.5	\$ 1,062.6	\$(193.4)	(15)%	\$ 1,256.0

Subscription Revenue

Our subscription revenue consists of three components: (1) maintenance revenue from our perpetual software products; (2) maintenance revenue from our term-based product subscriptions and flexible enterprise business agreements; and (3) revenue from our cloud service offerings. 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 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. Revenue for our cloud service offerings is recognized ratably over the contract term commencing with the date our service is made available to customers and when all other revenue recognition criteria have been satisfied.

Subscription revenue increased 1% during the three months ended July 31, 2016, as compared to the three months ended July 31, 2015, primarily due to a 38% increase in new model subscription revenue, partially offset by a 3% decrease in maintenance revenue. The 38% increase in new model subscription revenue was due to a 197% increase in product subscription revenue and a 29% increase in revenue from flexible enterprise business agreements. The 3% decrease in maintenance revenue was attributable to the business model transition, as we expect maintenance revenue will slowly decline as perpetual license sales end, and customers adopt our new model subscription offerings.

Maintenance revenue represented 87% and 90% of subscription revenue for the three months ended July 31, 2016 and 2015, respectively. New model subscription revenue represented 13% and 10% of subscription revenue for the three months ended July 31, 2016 and 2015, respectively.

Subscription revenue increased 1% during the six months ended July 31, 2016, as compared to the six months ended July 31, 2015, primarily due to a 36% increase in new model subscription revenue, partially offset by a 2% decrease in maintenance revenue. The 36% increase in new model subscription revenue was due to a 31% increase in revenue from flexible enterprise business agreements and a 200% increase in product subscription revenue. The 2% decrease

in maintenance revenue was attributable to the business model transition, as we expect maintenance revenue will slowly decline as perpetual license sales end, and customers adopt our new model subscription offerings.

Maintenance revenue represented 87% and 90% of subscription revenue for the six months ended July 31, 2016 and 2015, respectively. New model subscription revenue represented 13% and 10% of subscription revenue for the six months ended July 31, 2016 and 2015, respectively.

License and Other Revenue

License and other revenue consists of two components: (1) all forms of product license revenue and (2) other revenue. Product license revenue includes software license revenue from the sale of perpetual licenses, term-based licenses from our product subscriptions and flexible enterprise business agreements, and product revenue for Creative Finishing. Other revenue includes revenue from consulting, training, Autodesk Developers Network and Creative Finishing customer support, and is recognized over time, as the services are performed.

License and other revenue decreased 21% during the three months ended July 31, 2016, as compared to the three months ended July 31, 2015. Product license revenue, as a percentage of license and other revenue, was 86% and 88% for the three months ended July 31, 2016 and 2015, respectively. The decrease in product license revenue was due to the business model transition, which led to a 38% decrease in revenue from perpetual licenses as we have discontinued selling perpetual seats of most of our product offerings. This decrease was partially offset by a 111% increase in license revenue from our new model subscription offerings.

License and other revenue decreased 33% during the six months ended July 31, 2016, as compared to the six months ended July 31, 2015. Product license revenue, as a percentage of license and other revenue, was 83% and 89% for the six months ended July 31, 2016 and 2015, respectively. The decrease in product license revenue was due to the business model transition, which led to a 50% decrease in revenue from perpetual licenses as we have discontinued selling perpetual seats of most of our product offerings. This decrease was partially offset by a 104% increase in license revenue from our new model subscription offerings.

Other revenue decreased 9% during the three months ended July 31, 2016, as compared to the three months ended July 31, 2015 due to a decrease in revenue from Creative Finishing. Other revenue represented 6% of total net revenue for both the three months ended July 31, 2016 and 2015, respectively,

Other revenue decreased 2% during the six months ended July 31, 2016, as compared to the six months ended July 31, 2015 due to a decrease in revenue from Creative Finishing, partially offset by an increase in revenue from consumer products. Other revenue represented 6% of total net revenue for both the six months ended July 31, 2016 and 2015, respectively,

Backlog related to current software license product orders that had not been delivered at the end of the quarter increased by \$6.7 million during the six months ended July 31, 2016 from \$31.4 million at January 31, 2016 to \$38.1 million at July 31, 2016. Backlog from current software license product orders that have not been delivered consists of orders for currently available licensed software products from customers with approved credit status.

Net Revenue by Operating Segment

We have four reportable segments: AEC, MFG, PSEB, and M&E. We have no material inter-segment revenue. During the business model transition, revenue has been and will be negatively impacted as more revenue is recognized ratably rather than up front and as new product offerings generally have a lower initial purchase price. As part of the business model transition, we discontinued new perpetual license sales for most individual products at the end of the fourth quarter of fiscal 2016, and on August 1, 2016, we discontinued selling most new perpetual license of suites, which lead to a surge in revenue from our perpetual suites during the three months ended July 31, 2016. These broad impacts are reflected in the drivers below.

During the three months ended July 31, 2016, net revenue for AEC increased by 8% as compared to the same period in the prior fiscal year, primarily due to a 26% increase in our AEC suites driven by Autodesk Building Design Suite and Autodesk Infrastructure Design Suite. Partially offsetting the increase in AEC suites was a 14% decline in

revenue from individual product offerings.

During the six months ended July 31, 2016, net revenue for AEC was flat compared to the same period in the prior fiscal year, primarily due to a 10% increase in our AEC suites driven by Autodesk Building Design Suite and Autodesk Infrastructure Design Suite. Offsetting the increase in AEC suites was a 12% decline in revenue from individual product offerings.

During the three months ended July 31, 2016, net revenue for MFG increased by 3% as compared to the same period in the prior fiscal year primarily due to a 7% increase in our MFG suites driven by an increase in revenue from our Product Design Suite.

During the six months ended July 31, 2016, net revenue for MFG decreased by 6% as compared to the same period in the prior fiscal year primarily due to a 6% decline in our MFG suites, driven by a decrease in revenue from our Product Design Suite, and a 6% decrease in individual product offerings.

During both the three and six months ended July 31, 2016, net revenue for PSEB decreased by 47% as compared to the same periods in the prior fiscal year primarily due to 49% and 48% respective decreases in revenue from our AutoCAD and AutoCAD LT products. As part of the transition to term-based product subscriptions for our individual software products in February 2016, products like AutoCAD and ACAD LT will be negatively impacted when compared to the same period in the prior fiscal year as revenue is recognized ratably rather than up front.

During the three and six months ended July 31, 2016, net revenue for M&E decreased by 16% and 14%, respectively, as compared to the same periods in the prior fiscal year, primarily due to 60% and 46% respective decreases in Creative Finishing, which were driven by lower revenue on Creative Finishing hardware products.

Net Revenue by Geographic Area

(in millions)	Three Months Ended July 31, 2016	As a % of Net Revenue		Three Months Ended July 31, 2015	As a % of Net Revenue	
Net Revenue:						
Americas	\$230.1	42	%	\$235.7	39	%
Europe, Middle East and Africa	220.5	40	%	225.7	37	%
Asia Pacific	100.1	18	%	148.1	24	%
Total Net Revenue	\$550.7	100	%	\$609.5	100	%

(in millions)	Six Months Ended July 31, 2016	As a % of Net Revenue		Six Months Ended July 31, 2015	As a % of Net Revenue	
Net Revenue:						
Americas	\$447.8	42	%	\$479.7	38	%
Europe, Middle East and Africa	423.1	40	%	471.1	38	%
Asia Pacific	191.7	18	%	305.2	24	%
Total Net Revenue	\$1,062.6	100	%	\$1,256.0	100	%

Net revenue in the Americas geography decreased by 2% on an as reported basis and on a constant currency basis during the three months ended July 31, 2016, as compared to the same period in the prior fiscal year. Net revenue in the Americas attributable to the United States was approximately 85% and 83% for three months ended July 31, 2016 and 2015, respectively.

Net revenue in the Americas geography decreased by 7% on an as reported basis and 6% on a constant currency basis during the six months ended July 31, 2016, as compared to the same period in the prior fiscal year. Net revenue in the Americas attributable to the United States was approximately 85% and 82% for the six months ended July 31, 2016 and 2015, respectively.

International net revenue represented 65% and 68% of our net revenue for the three months ended July 31, 2016 and 2015, respectively. Net revenue in the Europe, Middle East and Africa ("EMEA") geography decreased by 2% on an as reported basis and increased 5% on a constant currency basis during the three months ended July 31, 2016 as compared to the same period in the prior fiscal year. Net revenue in the Asia Pacific ("APAC") geography decreased by 32% on an as reported basis and 30% on a constant currency basis during the three months ended July 31, 2016 as compared to the same period in the prior fiscal year, primarily as a result of the business model transition and continued weakness in Japan and emerging economies.

International net revenue represented 64% and 69% of our net revenue for the six months ended July 31, 2016 and 2015, respectively. Net revenue in the Europe, Middle East and Africa ("EMEA") geography decreased by 10% on an as reported basis and 3% on a constant currency basis during the six months ended July 31, 2016 as compared to the same period in the prior fiscal year. Net revenue in the Asia Pacific ("APAC") geography decreased by 37% on an as reported basis and 35% on a constant currency basis during the six months ended July 31, 2016 as compared to the same period in the prior fiscal year, primarily as a result of the business model transition and continued weakness in Japan and emerging economies.

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. Weak global economic conditions that have been characterized by restructuring of sovereign debt, high unemployment, and volatility in the financial markets 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 up front 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.

Net revenue in emerging economies decreased by 32% on an as reported basis and on a constant currency basis during the three months ended July 31, 2016 as compared to the same period in the prior fiscal year. Revenue from emerging economies represented 11% and 15% of net revenue for the three months ended July 31, 2016 and 2015, respectively.

Net revenue in emerging economies decreased by 36% on an as reported basis and on a constant currency basis during the six months ended July 31, 2016 as compared to the same period in the prior fiscal year. Revenue from emerging economies represented 11% and 15% of net revenue for the six months ended July 31, 2016 and 2015, respectively.

Cost of Revenue and Operating Expenses

Cost of Revenue

(in millions)	Three Months Ended	Change compared to prior fiscal year		Three Months Ended	Six Months Ended	Change compared to prior fiscal year		Six Months Ended
	July 31, 2016	\$	%	July 31, 2015	July 31, 2016	\$	%	July 31, 2015
Cost of revenue:								
Subscription	\$38.2	\$(1.8)	(5)%	\$40.0	\$78.0	\$(0.7)	(1)%	\$78.7
License and other	46.9	(6.1)	(12)%	53.0	99.5	(6.6)	(6)%	106.1
	\$85.1	\$(7.9)	(8)%	\$93.0	\$177.5	\$(7.3)	(4)%	\$184.8
As a percentage of net revenue	15%			15%	17%			15%

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

Cost of subscription revenue decreased 5% during the three months ended July 31, 2016 as compared to the same period in the prior fiscal year, primarily due to a decrease in product support costs to our maintenance and new model subscription customers.

Cost of subscription revenue decreased 1% during the six months ended July 31, 2016 as compared to the same period in the prior fiscal year, primarily due to a decrease in amortization expense of developed technologies.

Cost of license and other revenue includes labor costs associated with product setup and fulfillment 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, amortization of developed technology, allocated IT and facilities costs, professional services fees and royalties. Direct material and overhead charges include the cost of hardware sold (mainly Ember printers in the PSEB segment), and costs associated with electronic and physical fulfillment.

Cost of license and other revenue decreased 12% and 6% for the three and six months ended July 31, 2016, respectively, as compared to the same period in the prior fiscal year, primarily due to the discontinued sales and associated costs of our creative finishing hardware business in the fourth quarter of fiscal 2016 as well as lower professional fees for our consulting related offerings.

Cost of revenue, at least over the near term, is affected by the volume and mix of product sales, mix of physical versus electronic fulfillment, 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.

We expect cost of revenue to decrease in absolute dollars and slightly increase as a percentage of net revenue during the third quarter of fiscal 2017, as compared to the third quarter of fiscal 2016.

Marketing and Sales

	Three Months Ended	Change compared to prior fiscal year		Three Months Ended	Six Months Ended	Change compared to prior fiscal year		Six Months Ended
(in millions)	July 31, 2016	\$	%	July 31, 2015	July 31, 2016	\$	%	July 31, 2015
Marketing and sales	\$243.1	\$ 2.3	1 %	\$240.8	\$483.9	\$ (10.8)	(2)%	\$494.7
As a percentage of net revenue	44 %			40 %	46 %			39 %

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, rent and occupancy, payment processing fees, the cost of supplies and equipment, and allocated IT and facilities costs.

Marketing and sales expenses increased 1% for the three months ended July 31, 2016 as compared to the same period in the prior fiscal year, primarily due to an increase in stock-based compensation expense as a result of a higher fair market value of awards granted, partially offset by lower employee-related costs and a decrease in travel, entertainment and training expenses.

Marketing and sales expenses decreased 2% for the six months ended July 31, 2016 as compared to the same period in the prior fiscal year, primarily due to lower employee-related costs.

We expect marketing and sales expenses to increase in absolute dollars and as a percentage of net revenue during the third quarter of fiscal 2017, as compared to the third quarter of fiscal 2016.

Research and Development

	Three Months Ended	Change compared to prior fiscal year		Three Months Ended	Six Months Ended	Change compared to prior fiscal year		Six Months Ended
(in millions)	July 31, 2016	\$	%	July 31, 2015	July 31, 2016	\$	%	July 31, 2015
Research and development	\$193.0	\$ (0.1)	-%	\$193.1	\$386.5	\$ (1.1)	-%	\$387.6
As a percentage of net revenue	35 %			32 %	36 %			31 %

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, rent and occupancy, professional services such as fees paid to software development firms and independent contractors, and allocated IT and facilities costs.

Research and development expenses remained flat during both the three and six months ended July 31, 2016 as compared to the same periods in the prior fiscal year, primarily due to an increase in stock-based compensation expense as a result of a higher fair market value of awards granted, offset by a decrease in employee related costs and professional fees.

We expect research and development expenses to increase in absolute dollars and as a percentage of net revenue during the third quarter of fiscal 2017, as compared to the third quarter of fiscal 2016.

General and Administrative

	Three Months Ended	Change compared to prior fiscal year		Three Months Ended	Six Months Ended	Change compared to prior fiscal year		Six Months Ended
(in millions)	July 31, 2016	\$	%	July 31, 2015	July 31, 2016	\$	%	July 31, 2015
General and administrative	\$68.6	\$ (1.5)	(2)%	\$70.1	\$143.3	\$(2.7)	(2)%	\$146.0
As a percentage of net revenue	12 %			12 %	13 %			12 %

General and administrative expenses include salaries, bonuses, benefits and stock-based compensation expense for our 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, IT and facilities costs, and the cost of supplies and equipment.

General and administrative expenses decreased 2% during both the three and six months ended July 31, 2016, as compared to the same periods in the prior fiscal year primarily due to a decrease in employee related costs.

We expect general and administrative expenses to decrease in absolute dollars and slightly increase as a percentage of net revenue during the third quarter of fiscal 2017, as compared to the third quarter of fiscal 2016.

Amortization of Purchased Intangibles

	Three Months Ended	Change compared to prior fiscal year		Three Months Ended	Six Months Ended	Change compared to prior fiscal year		Six Months Ended
(in millions)	July 31, 2016	\$	%	July 31, 2015	July 31, 2016	\$	%	July 31, 2015
Amortization of purchased intangibles	\$7.8	\$(0.4)	(5)%	\$8.2	\$15.7	\$(1.4)	(8)%	\$17.1
As a percentage of net revenue	1 %			1 %	1 %			1 %

Amortization of purchased intangibles decreased 5% and 8% during the three and six months ended July 31, 2016, respectively, as compared to the same periods in the prior fiscal year, primarily related to the accumulated effects associated with amortization expense of intangible assets purchased over time.

We expect amortization of purchased intangibles to decrease in absolute dollars and remain flat as a percentage of net revenue during the third quarter of fiscal 2017, as compared to the third quarter of fiscal 2016.

Restructuring Charges and Other Facility Exit Costs, Net

(in millions)	Three Months Ended	Change compared to prior fiscal year		Three Months Ended	Six Months Ended	Change compared to prior fiscal year		Six Months Ended
	July 31, 2016	\$	%	July 31, 2015	July 31, 2016	\$	%	July 31, 2015
Restructuring charges and other facility exit costs, net	\$ 16.0	\$ 16.0	*	\$ —	\$ 68.3	\$ 68.3	*	\$ —
As a percentage of net revenue	3	%		—	%	6	%	—

*Percentage is not meaningful

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 Company's business. The Company's Fiscal 2017 Plan consist of employee termination benefits related to the reduction of its workforce of approximately \$69.0 million, and lease terminations and other exit costs of approximately \$10.0 million. Under the Fiscal 2017 Plan, we recorded \$8.6 million and \$60.9 million in employee termination benefits, lease termination costs and other facility exit costs during the three and six months ended July 31, 2016, respectively. Additionally, during the three and six months ended July 31, 2016, we recorded \$7.4 million in other facility exit costs not related to the Fiscal 2017 Plan. See Note 13, "Restructuring charges and other facility exit costs, net" in the Notes to Condensed Consolidated Financial Statements for additional information.

Interest and Other Expense, Net

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

(in millions)	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Interest and investment expense, net	\$(6.2)	\$(8.0)	\$(12.7)	\$(10.0)
(Loss) gain on foreign currency	(4.5)	0.3	(3.1)	(1.3)
(Loss) gain on strategic investments	(0.3)	2.4	0.1	3.4
Other income	0.9	1.9	2.0	4.8
Interest and other expense, net	\$(10.1)	\$(3.4)	\$(13.7)	\$(3.1)

Interest and other expense, net increased \$6.7 million in the three months ended July 31, 2016, as compared to the same period in the prior fiscal year, primarily due to an increase in foreign currency losses, as well as non-recurring gains on certain of our privately-held strategic investments and mark-to-market gains recognized on the derivative portion on certain of our other privately-held strategic investments during the prior fiscal year affecting the comparative balance.

Interest and other expense, net increased \$10.6 million in the six months ended July 31, 2016, as compared to the same period in the prior fiscal year, primarily due to an increase in interest expense from the June 2015 issuance of \$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, as well as non-recurring gains on certain of our privately-held strategic investments and mark-to-market gains recognized on the derivative portion on certain of our other privately-held strategic investments during the prior fiscal year affecting the comparative balance.

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 \$25.2 million and \$269.5 million for the three months ended July 31, 2016 and 2015, respectively. Income tax expense was \$39.6 million and \$272.2 million for the six months ended July 31, 2016 and 2015, respectively. Income tax expense consists primarily of foreign taxes and U.S. tax expense related to indefinite-lived intangibles.

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 and prudent whereby management may determine that it is more likely than not that the federal and state deferred tax assets will be realized; therefore, 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 July 31, 2016, we had \$261.6 million of gross unrecognized tax benefits, excluding interest, of which approximately \$246.9 million represents the amount of unrecognized tax benefits that would impact the effective tax rate, if recognized. However, this rate impact would be offset 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.

During the three months ended July 31, 2016, we negotiated a settlement of a tax audit in China covering certain transfer pricing matters from 2004-2013. The settlement is currently under review by the State Administration of Taxation. The estimated tax liability, including interest, is approximately \$11.4 million for the years under audit and calendar years 2014 and 2015. The Company accrued this tax liability during the three months ended July 31, 2016.

The Internal Revenue Service has notified us that it intends to begin an examination of the Company's U.S. consolidated federal income tax returns for fiscal years 2014 and 2015. While it is possible that our tax positions may be challenged, we believe our positions are consistent with the tax law, and the balance sheet reflects appropriate liabilities for uncertain federal tax positions for the years to be 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 six months ended July 31, 2016 and 2015, our gross profit, gross margin, income (loss) from operations, operating margin, net income (loss), diluted net income (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		Six Months Ended July	
	July 31, 2016	2015	2016	2015
	(Unaudited)		(Unaudited)	
Gross profit	\$465.6	\$516.5	\$885.1	\$1,071.2
Non-GAAP gross profit	\$479.7	\$530.9	\$913.5	\$1,102.0
Gross margin	85 %	85 %	83 %	85 %
Non-GAAP gross margin	87 %	87 %	86 %	88 %
(Loss) income from operations	\$(62.9)	\$4.3	\$(212.6)	\$25.8
Non-GAAP income from operations	\$25.9	\$65.2	\$(1.1)	\$159.3
Operating margin	(11)%	1%	(20)%	2%
Non-GAAP operating margin	5%	11%	—%	13%
Net loss	\$(98.2)	\$(268.6)	\$(265.9)	\$(249.5)
Non-GAAP net income (loss)	\$11.9	\$44.0	\$(11.1)	\$113.1
GAAP diluted net loss per share (1)	\$(0.44)	\$(1.18)	\$(1.19)	\$(1.10)
Non-GAAP diluted net income (loss) per share (1)	\$0.05	\$0.19	\$(0.05)	\$0.49
GAAP diluted shares used in per share calculation	223.2	227.0	223.8	227.1
Non-GAAP diluted weighted average shares used in per share calculation	227.4	231.1	223.8	231.6

(1) Net (loss) income per share was computed independently for each of the periods presented; therefore the sum of the net (loss) income 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 July 31,		Six Months Ended July 31,			
	2016	2015	2016	2015		
	(Unaudited)		(Unaudited)			
Gross profit	\$465.6	\$516.5	\$885.1	\$1,071.2		
Stock-based compensation expense	3.4	2.4	6.8	5.3		
Amortization of developed technologies	10.7	12.0	21.6	25.5		
Non-GAAP gross profit	\$479.7	\$530.9	\$913.5	\$1,102.0		
Gross margin	85	% 85	% 83	% 85	%	%
Stock-based compensation expense	—	% —	% 1	% 1	%	%
Amortization of developed technologies	2	% 2	% 2	% 2	%	%
Non-GAAP gross margin	87	% 87	% 86	% 88	%	%
(Loss) income from operations	\$(62.9)	\$4.3	\$(212.6)	\$25.8		
Stock-based compensation expense	54.3	40.7	105.9	90.9		
Amortization of developed technologies	10.7	12.0	21.6	25.5		
Amortization of purchased intangibles	7.8	8.2	15.7	17.1		
Restructuring charges and other facility exit costs, net	16.0	—	68.3	—		
Non-GAAP income from operations	\$25.9	\$65.2	\$(1.1)	\$159.3		
Operating margin	(11)	% 1	% (20)	% 2	%	%
Stock-based compensation expense	10	% 7	% 10	% 7	%	%
Amortization of developed technologies	2	% 2	% 2	% 2	%	%
Amortization of purchased intangibles	1	% 1	% 2	% 2	%	%
Restructuring charges and other facility exit costs, net	3	% —	% 6	% —	%	%
Non-GAAP operating margin	5	% 11	% —	% 13	%	%
Net loss	\$(98.2)	\$(268.6)	\$(265.9)	\$(249.5)		
Stock-based compensation expense	54.3	40.7	105.9	90.9		
Amortization of developed technologies	10.7	12.0	21.6	25.5		
Amortization of purchased intangibles	7.8	8.2	15.7	17.1		
Restructuring charges and other facility exit costs, net	16.0	—	68.3	—		
Loss (gain) on strategic investments	0.3	(2.4)	(0.2)	(3.4)		
Discrete tax items	14.9	4.3	13.0	1.2		
Establishment of valuation allowance on deferred tax assets	—	230.9	—	230.9		
Income tax effect of non-GAAP adjustments	6.1	18.9	30.5	0.4		
Non-GAAP net income (loss)	\$11.9	\$44.0	\$(11.1)	\$113.1		

	Three Months		Six Months	
	Ended July 31,		Ended July 31,	
	2016	2015	2016	2015
	(Unaudited)		(Unaudited)	
GAAP diluted net loss per share (1)	\$(0.44)	\$(1.18)	\$(1.19)	\$(1.10)
Stock-based compensation expense	0.24	0.18	0.47	0.39
Amortization of developed technologies	0.05	0.05	0.10	0.11
Amortization of purchased intangibles	0.03	0.04	0.07	0.07
Restructuring charges and other facility exit costs, net	0.07	—	0.30	—
Loss (gain) on strategic investments	—	(0.01)	—	(0.01)
Discrete tax items	0.07	0.02	0.06	0.02
Establishment of valuation allowance on deferred tax assets	—	1.01	—	1.01
Income tax effect of non-GAAP adjustments	0.03	0.08	0.14	—
Non-GAAP diluted net income (loss) per share (1)	\$0.05	\$0.19	\$(0.05)	\$0.49
GAAP diluted shares used in per share calculation	223.2	227.0	223.8	227.1
Shares included in non-GAAP net income per share, but excluded from GAAP net loss per share as they would have been anti-dilutive	4.2	4.1	—	4.5
Non-GAAP Diluted weighted average shares used in per share calculation	227.4	231.1	223.8	231.6

(1) Net (loss) income per share was computed independently for each of the periods presented; therefore the sum of the net (loss) income 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.

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.

Loss (gain) on strategic investments. We exclude gains and losses related to our strategic investments from our non-GAAP measures primarily because management finds it useful to exclude these variable gains and losses on these investments 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. 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 which do not occur regularly.

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.

Discrete tax items. We exclude the GAAP tax provision, including discrete items, from the non-GAAP measure of 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.

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 and maintenance of our products. 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 July 31, 2016, our principal sources of liquidity were cash, cash equivalents and marketable securities totaling \$2.6 billion and net accounts receivable of \$306.9 million.

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 four series of notes collectively, the "Notes"). As of August 30, 2016, we have \$1.5 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. As of August 30, 2016, 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.

Our cash, cash equivalents and marketable securities decreased to \$2.6 billion as of July 31, 2016 from \$2.8 billion as of January 31, 2016 primarily as a result of cash used for repurchases of our common stock (net of stock issuance proceeds), acquisitions including business combinations and technology purchases, and capital expenditures. The cash proceeds from issuance of common stock vary based on our stock price, stock option exercise activity and the volume of employee purchases under the ESPP.

The primary source of net cash provided by operating activities of \$146.4 million for the six months ended July 31, 2016 was cash flow provided by changes in operating assets and liabilities of \$183.1 million. The primary working capital source of cash was a decrease in accounts receivable. The primary working capital uses of cash were decreases in accrued compensation and other accrued liabilities. Our days sales outstanding in trade receivables was 51 at July 31, 2016 compared to 92 at January 31, 2016. The days sales outstanding decrease relates primarily to a seasonal decline in maintenance billings and the discontinuation of the sale of most individual perpetual products as of February 1, 2016.

At July 31, 2016, our short-term investment portfolio had an estimated fair value of \$597.6 million and a cost basis of \$595.6 million. The portfolio fair value consisted of \$267.3 million invested in corporate bonds, \$119.4 million invested in commercial paper, \$55.4 million invested in certificates of deposit, \$41.9 million invested in agency bonds, \$37.6 million

invested in U.S. government securities, \$19.6 million invested in sovereign debt, and \$10.8 million invested in asset backed securities.

At July 31, 2016, \$45.6 million of 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).

Long-term cash requirements for items other than normal operating expenses are anticipated for the following: 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 July 31, 2016, 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, 2016.

Our cash, cash equivalent and marketable securities balances are concentrated in a few locations around the world, with substantial amounts held outside of the U.S. As of July 31, 2016, approximately 86% of our total cash, cash equivalents and marketable securities are located offshore and will fluctuate subject to business needs. Certain amounts held outside the U.S. could be repatriated to the U.S. (subject to local law restrictions), but under current U.S. tax law, could be subject to U.S. income taxes less applicable foreign tax credits. We have provided for the U.S. income tax liability on foreign earnings, except for foreign earnings that are considered permanently reinvested outside the U.S. Our intent is that amounts related to foreign earnings permanently reinvested outside the U.S. will remain outside the U.S. and we will meet our U.S. liquidity needs through ongoing cash flows, external borrowings, or both. 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 and to fund our existing stock buyback program with cash that has not been permanently reinvested outside the U.S.

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 I, Item 3, “Quantitative and Qualitative Disclosures about Market Risk” for further discussion.

Issuer Purchases of Equity Securities

Autodesk's stock repurchase program is largely to help offset the dilution from the issuance of stock under our employee stock plans and for such other purposes as may be in the interests of Autodesk and its stockholders, and has the effect of returning excess cash generated from our business to stockholders. 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 restricted stock unit 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.

During the three and six months ended July 31, 2016, we repurchased 3.0 million and 4.8 million shares of our common stock, respectively. At July 31, 2016, 1.5 million shares remained available for repurchase under the repurchase program approved by the Board of Directors. This program does 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 July 31, 2016:

(Shares in millions)	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 Be Purchased Under the Plans or Programs (2)
May 1 - May 31	0.5	\$ 58.35	0.5	4.0
June 1 - June 30	2.0	54.98	2.0	2.0
July 1 - July 31	0.5	56.76	0.5	1.5
Total	3.0	\$ 55.88	3.0	

(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 June 2012 that authorized the repurchase of 30.0 million shares. This plan does not have a fixed expiration date.

There were no sales of unregistered securities during the six months ended July 31, 2016.

Off-Balance Sheet Arrangements

As of July 31, 2016, 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 ARR" captures ARR relating to traditional maintenance attached to perpetual licenses. "New Model ARR" captures ARR relating to new model subscription offerings. Recurring revenue acquired with the acquisition of a business may cause variability in the comparison of this calculation. ARR is currently our key performance metric 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 total subscriptions.

Building Information Modeling (BIM)—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. Our constant currency methodology removes all hedging gains and losses from the calculation.

Flexible Enterprise Business Agreements—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.

License and Other revenue—License and other revenue consists of two components: (1) all forms of product license revenue and (2) other revenue. Product license revenue includes software license revenue from the sale of perpetual licenses, term-based licenses from our product subscriptions and flexible enterprise business agreements, and product revenue for Creative Finishing. Other revenue includes revenue from consulting, training, Autodesk Developers Network and Creative Finishing customer support, and is recognized over time, as the services are performed.

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 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.

New Model Subscription Offerings (New Model)—Comprises our term-based product subscriptions (formerly titled Desktop subscription), cloud service offerings, and flexible enterprise business agreements.

Recurring Revenue—Represents the revenue for the period from our traditional maintenance plans and revenue from our new model subscription offerings, including portions of revenue allocated to license & other revenue for those offerings. It excludes subscription revenue related to consumer product offerings, select Creative Finishing product offerings, Autodesk Buzzsaw, Autodesk Constructware, education offerings, and third party products. Recurring revenue acquired with the acquisition of a business is captured and may cause variability in the comparison of this calculation.

Suites—Autodesk suites are a combination of products that target a specific user objective (product design, building design, etc.) and support a set of workflows for that objective. Our primary suites include: Autodesk Building Design Suite, Autodesk Entertainment Creation Suite, Autodesk Factory Design Suite, Autodesk Infrastructure Design Suite, Autodesk Plant Design Suite, and Autodesk Product Design Suite.

Subscription revenue—Autodesk subscription revenue consists of three components: (1) maintenance revenue from our perpetual software products; (2) maintenance revenue from our term-based product subscriptions and flexible enterprise business agreements; and (3) revenue from our cloud service offerings.

Total Subscriptions—Consists of subscriptions from our maintenance plans and new model subscription offerings that are active and paid as of the quarter end date. For certain cloud service offerings and flexible enterprise business agreements, 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.

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 July 31, 2016 and January 31, 2016, 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 \$357.0 million and \$374.0 million at July 31, 2016 and January 31, 2016, 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 July 31, 2016 indicated that a hypothetical 10% appreciation of the U.S. dollar from its value at July 31, 2016 and January 31, 2016 would increase the fair value of our foreign currency contracts by \$18.4 million and \$33.3 million, respectively. A hypothetical 10% depreciation of the dollar from its value at July 31, 2016 and January 31, 2016 would decrease the fair value of our foreign currency contracts by \$17.7 million and \$25.6 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 July 31, 2016, we had \$2.0 billion of cash equivalents and marketable securities, including \$597.6 million classified as short-term marketable securities and \$505.6 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 \$5.2 million and \$9.3 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 Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. We conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, 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 Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of July 31, 2016 for the reasons described below.

Our disclosure controls and procedures include components of our internal control over financial reporting. Our management, including our Chief Executive Officer and Chief Financial Officer, 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.

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. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements

will not be prevented or detected on a timely basis.

We have performed additional analyses and other procedures to enable management to conclude that, notwithstanding the existence of the material weakness described above, the consolidated financial statements included in this Form 10-Q present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with GAAP.

Remediation Efforts with Respect to Material Weakness

Management initiated remediation plans including the following:

- enhancing our technical accounting review for complex income tax considerations;

- enhancing our income tax controls to include specific activities to ensure proper classification of deferred taxes;

- supplementing our accounting and tax professionals with the engagement of an internationally recognized accounting firm to assist us in the technical review regarding the application of tax rules around deferred tax assets and liabilities; and

- assessed and reorganized the structure of our tax function to enhance the level of documentation, technical oversight and review

Management will continue to enhance its controls to include refinements and improvements to certain controls over the accounting for income taxes. The Company's enhanced controls will continue to evolve and have not had a sufficient period of time to operate for management to conclude that they are operating effectively. Management believes the foregoing efforts will effectively remediate the material weakness.

Changes in Internal Control Over Financial Reporting

Other than with respect to the remediation efforts described above, there were no changes in our internal control 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 July 31, 2016 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 business, financial results and financial condition.

As our business has expanded globally, we have increasingly become subject to risks arising from adverse changes in global economic and political conditions. The past several years were characterized by mixed global economic conditions, volatile credit markets, volatile exchange rates, relatively high unemployment, increased government deficit spending and debt levels, uncertainty about certain governments' abilities to repay such debt or to address certain fiscal issues, and volatility in many financial instrument markets. If economic growth in countries where we do business slows, such as in Japan or in emerging economies, or if such countries experience further economic recessions, customers may delay or reduce technology purchases. This could result in reductions in sales of our products and services, longer sales cycles and slower adoption of our technologies.

Over the past several years, many of our customers have experienced tighter credit, negative financial news and weaker financial performance of their businesses and have reduced their workforces, thereby reducing the number of licenses and the number of maintenance contracts they purchase from us. In addition, a number of our customers rely, directly and indirectly, on government spending. Current debt balances of many countries without proportionate increases in revenues have caused many countries to reduce spending and in some cases have forced those countries to restructure their debt in an effort to avoid defaulting under those obligations. This has not only impacted those countries but others that are holders of such debt and those assisting in such restructuring.

These actions may impact, and over the past several years have negatively impacted, our business, financial results and financial condition. Moreover, our financial performance may be negatively impacted by:

- lack of credit available to and the insolvency of key channel partners, which may impair our distribution channels and cash flows;

- counterparty failures negatively impacting our treasury functions, including timely access to our cash reserves and third-party fulfillment of hedging transactions;

- counterparty failures negatively affecting our insured risks;

- inability of banks to honor our existing line of credit, which could increase our borrowing expenses or eliminate our ability to obtain short-term financing; and

- decreased borrowing and spending by our end users on small and large projects in the industries we serve, thereby reducing demand for our products.

In addition, on June 23, 2016, voters in the United Kingdom approved an advisory referendum to withdraw from the European Union (commonly referred to as “Brexit”). The Brexit vote and the perceptions as to the impact of the withdrawal of the United Kingdom from the European Union may adversely affect business activity, political stability and economic conditions in the United Kingdom, the European Union and elsewhere.

Uncertainty about current and future economic and political conditions on us, our customers and partners, makes it difficult for us to forecast operating results and to make decisions about future investments.

Further macro-economic degradation, a slower economic recovery in industries important to our business or adverse exchange rate movements, may adversely affect our business, financial results 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 have 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. 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 up front 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 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 are also developing consumer products for digital art, personal design and creativity, and home design. 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 desktop subscription (formally referred to as rental) 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.

Our entry into 3D printing presents many of the risks described above concerning developing and introducing new products as well as new risks for us. The manufacturing and 3D printing markets are highly competitive and some of our competitors have experience and resources superior to ours. We have limited experience designing, developing, and selling hardware products and no experience developing and selling printers. The market for 3D printing is nascent and may not develop as rapidly as we expect. Our sale of 3D printers could subject us to product and other liability that we do not currently face. If any of these risks materialize, it could adversely affect our business and financial performance as well as our reputation and brand.

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 will result in the loss of future up-front licensing revenue. This also will freeze the growth of our maintenance subscription revenue because there will be no further opportunities to attach maintenance licensing once we cease the sale of suites licenses. We expect our maintenance subscription revenue to decline over time, but it may decline more quickly than anticipated due to low maintenance renewals. At the same time, our new model subscription revenue may not grow as rapidly as anticipated. Our new model subscription pricing allows customers to use our offerings at a lower initial cost when compared to the sale of a perpetual license. Although our new model 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.

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% and 69% of our net revenue for the six months ended July 31, 2016 and 2015, respectively. 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. Our intent is that amounts related to foreign earnings permanently reinvested outside the U.S. will remain outside the U.S., and we will meet our U.S. liquidity needs through ongoing cash flows, external borrowings (such as our 2012 and 2015 Notes), or both. However, if, in the future, amounts held by foreign subsidiaries are needed to fund our operations in the U.S., or to service our external borrowings, the repatriation of such amounts to the U.S. could result in a significant incremental tax liability in the period in which the decision to repatriate occurs and payment of any such tax liability would reduce the cash available to fund our operations.

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.

54

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.

Actions that we are taking to restructure our business in alignment with our business model transition strategy may be costly and may not be as effective as anticipated.

During the first quarter of fiscal 2017, we commenced a company-wide restructuring plan to accelerate the Company's move to the cloud and its transition to a subscription-based business model. Through the restructuring, we seek to reduce expenses, streamline the organization, and reallocate resources to align more closely with the Company's needs going forward. As a result of these actions, we have incurred and will incur additional costs in the short term that have the effect of reducing our operating margins. If we are unable to realize the expected outcomes from the restructuring efforts, our business and operating results may be harmed.

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. 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 of 2016, the European Commission and the United States agreed on a new framework for transatlantic data flows: the EU-US Privacy Shield. We rely on other legal mechanisms for data transfer and continue to comply with the previous US-EU Safe Harbor Framework and US-Swiss Safe Harbor Framework as set forth by the US 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 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 six months ended July 31, 2016 and 2015, approximately 75% and 81%, 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 Corporation and its global affiliates (“Tech Data”). Tech Data accounted for 30% of our total net revenue for the six months ended July 31, 2016, as compared to 25% of our total net revenue for the six months ended July 31, 2015. 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.

A significant portion of our revenue is generated through maintenance revenue; decreases in maintenance renewal rates would negatively impact our future revenue and financial results.

Our maintenance customers have no obligation to attach maintenance to their initial license or renew their maintenance contract after the expiration of their initial 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 will result in the loss of future maintenance attach opportunities and freeze maintenance growth. We expect customers' 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, and the perceived value of the maintenance program. If our customers do not renew their maintenance contract for our products, our maintenance revenue will decline and our financial results will suffer.

We recognize maintenance revenue ratably over the term of the maintenance contracts, which is predominantly one year, but may also range up to five years. Decreases in maintenance billings will negatively impact future maintenance revenue, however future maintenance revenue will also be impacted by other factors such as the amount, timing and mix of contract terms of future billings.

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 I, 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 upgrades and perpetual licenses;

• weak or negative growth in one or more of the industries we serve, including AEC, manufacturing, and digital media and entertainment markets;

• restructuring or other accounting charges and unexpected costs or other operating expenses;

• 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 product mix, pricing pressure or changes in product pricing;
- changes in billings linearity;
- the ability of governments around the world to adopt fiscal policies, meet their financial and debt obligations, and to finance infrastructure projects;
- lower growth or contraction of our maintenance program;
- failure to expand our AutoCAD and AutoCAD LT customer base to related design products and services;
- our inability 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 success of new business or sales initiatives;
- 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;
- 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;
- 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;

- 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;
- failure to appropriately estimate the scope of services under consulting arrangements; and
- adjustments arising from ongoing or future tax examinations.

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. For example, we face risks relating to our fiscal 2017 integration of our Delcam subsidiaries, which previously operated autonomously.

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 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, 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 and products based on AutoCAD, which included our suites 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 six months ended July 31, 2016, combined revenue from our AutoCAD and AutoCAD LT products, not including suites having AutoCAD or AutoCAD LT as a component, represented 15% of total net revenue compared to 25% during the six months ended July 31, 2015.

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.

If we fail to remediate the material weakness identified in our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 or are unable to implement and maintain effective internal control over financial reporting in the future, the accuracy and timeliness of our financial and operating reporting may be adversely affected and could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

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. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Management initiated remediation plans including the following:

- enhancing our technical accounting review for complex income tax considerations;

- enhancing our income tax controls to include specific activities to ensure proper classification of deferred taxes;

- supplementing our accounting and tax professionals with the engagement of an internationally recognized accounting firm to assist us in the technical review regarding the application of tax rules around deferred tax assets and liabilities; and

- assessed and reorganized the structure of our tax function to enhance the level of documentation, technical oversight and review.

There can be no assurance that our remedial measures will be sufficient to address the material weakness or that our internal control over financial reporting will not be subject to additional material weaknesses in the future. If the remedial measures that we take are insufficient to address our material weakness or if additional material weaknesses or significant deficiencies in our internal control are discovered or occur in the future, our Condensed Consolidated Financial Statements may contain material misstatements, and we could be required to restate our financial results. Additionally, we may encounter problems or delays in implementing any changes necessary for management to make a favorable assessment of our internal control over financial reporting. If we cannot favorably assess the effectiveness of our internal control over financial reporting, investors could lose confidence in our financial reports and the price of our common stock could decline.

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, billings, earnings, subscriptions, or other key performance metrics;

- results and future projections related to our business model transition, including the impact of the end of upgrades and perpetual licenses;

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.

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 the 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.

It is not clear if or when these potential changes in accounting principles may become effective, whether we have the proper systems and controls in place to accommodate such changes and the impact that any such changes may have on our consolidated financial position, results of operations and cash flows. 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 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. 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.

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 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 not more likely than not to be realized and we determined during our second quarter of fiscal 2016 that our U.S. deferred tax assets were no longer more likely than not to be realized. Changes in the amount of the valuation allowance could result in a material noncash 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 \$1.5 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 December 2012, we issued 1.95% notes due December 15, 2017 in an aggregate principal amount of \$400.0 million and 3.6% notes due December 15, 2022 in an aggregate principal amount of \$350.0 million. 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. As the debt matures, we will have to expend significant resources to either repay or refinance these notes. If we decide to refinance the notes, 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 July 31, 2016, 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.

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 July 31, 2016.

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*	Autodesk, Inc. 2012 Employee Stock Plan, as amended and restated
10.2*	Autodesk, Inc. 2012 Employee Stock Plan Form of Restricted Stock Unit Agreement, as amended and restated
10.3*	Autodesk, Inc. 2012 Employee Stock Plan Form of Severance Restricted Stock Unit Agreement, as amended and restated
10.4*	Sub-Plan of the Autodesk, Inc. 1998 Employee Qualified Stock Purchase Plan, as amended and restated
10.5*	Autodesk, Inc. 1998 Employee Qualified Stock Purchase Plan Form of Subscription Agreement, as amended and restated
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
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

Edgar Filing: AUTODESK INC - Form 10-Q

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: August 30, 2016

AUTODESK, INC.
(Registrant)

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