

AUTODESK INC

Form 10-Q

August 30, 2018

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended July 31, 2018  
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  
incorporation or organization)

(I.R.S. employer  
Identification No.)

**111 McInnis Parkway,**  
**San Rafael, California**

**94903**

(Address of principal executive offices) (Zip Code)

**(415) 507-5000**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☐  
Emerging growth company ☐

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

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

Yes ☐ No ☒

As of August 24, 2018, registrant had outstanding 218,616,633 shares of common stock.

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

(In millions, except per share data)

(Unaudited)

|  | <b>Three Months<br/>Ended July 31,</b> |             | <b>Six Months Ended<br/>July 31,</b> |             |
|--|--|-------------|--------------------------------------|-------------|
|  | <b>2018</b>                            | <b>2017</b> | <b>2018</b>                          | <b>2017</b> |
| Net revenue:   |  |             |                                      |             |
| Subscription   | \$420.6                                | \$196.1     | \$771.0                              | \$369.5     |
| Maintenance  | 166.4                                  | 261.8       | 347.6                                | 525.4       |
| Total subscription and maintenance revenue                           | 587.0                                  | 457.9       | 1,118.6                              | 894.9       |
| Other (1)  | 24.7                                   | 43.9        | 53.0                                 | 92.6        |
| Total net revenue  | 611.7                                  | 501.8       | 1,171.6                              | 987.5       |
| Cost of revenue:   |  |             |                                      |             |
| Cost of subscription and maintenance revenue                         | 54.1                                   | 52.8        | 104.5                                | 107.7       |
| Cost of other revenue (2)  | 12.3                                   | 17.8        | 25.1                                 | 36.4        |
| Amortization of developed technology                                 | 3.4                                    | 4.0         | 7.0                                  | 8.7         |
| Total cost of revenue  | 69.8                                   | 74.6        | 136.6                                | 152.8       |
| Gross profit   | 541.9                                  | 427.2       | 1,035.0                              | 834.7       |
| Operating expenses:  |  |             |                                      |             |
| Marketing and sales  | 289.1                                  | 257.6       | 565.5                                | 513.3       |
| Research and development   | 180.8                                  | 193.8       | 353.6                                | 381.5       |
| General and administrative   | 79.1                                   | 78.0        | 152.0                                | 156.3       |
| Amortization of purchased intangibles                                | 3.8                                    | 4.9         | 7.6                                  | 10.6        |
| Restructuring and other exit costs, net                              | 13.8                                   | 0.5         | 36.3                                 | 0.2         |
| Total operating expenses   | 566.6                                  | 534.8       | 1,115.0                              | 1,061.9     |
| Loss from operations   | (24.7 )                                | (107.6 )    | (80.0 )                              | (227.2 )    |
| Interest and other income (expense), net                             | 1.3                                    | (18.8 )     | (7.2 )                               | (20.6 )     |
| Loss before income taxes   | (23.4 )                                | (126.4 )    | (87.2 )                              | (247.8 )    |
| Provision for income taxes   | (16.0 )                                | (17.6 )     | (34.6 )                              | (25.8 )     |
| Net loss   | \$(39.4 )                              | \$(144.0 )  | \$(121.8 )                           | \$(273.6 )  |
| Basic net loss per share   | \$(0.18 )                              | \$(0.66 )   | \$(0.56 )                            | \$(1.25 )   |
| Diluted net loss per share   | \$(0.18 )                              | \$(0.66 )   | \$(0.56 )                            | \$(1.25 )   |
| Weighted average shares used in computing basic net loss per share   | 219.0                                  | 219.5       | 218.8                                | 219.7       |
| Weighted average shares used in computing diluted net loss per share | 219.0                                  | 219.5       | 218.8                                | 219.7       |

(1) Previously labeled as "License and other" in prior periods.

(2) Previously labeled as "Cost of license and other revenue" in prior periods.

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(In millions)

(Unaudited)

|   | Three Months<br>Ended July 31,<br>2018 |             | Six Months Ended<br>July 31,<br>2017 |             |
|---|--|-------------|--------------------------------------|-------------|
| Net loss  | \$ (39.4 )                             | \$ (144.0 ) | \$ (121.8 )                          | \$ (273.6 ) |
| Other comprehensive (loss) income, net of reclassifications:  |  |             |                                      |             |
| Net gain (loss) on derivative instruments (net of tax effect of (\$1.1), \$0.9, (\$1.8), and \$1.4, respectively)                               | 11.6                                   | (11.6 )     | 17.6                                 | (13.0 )     |
| Change in net unrealized (loss) gain on available-for-sale debt securities (net of tax effect of \$(0.1), \$0.4, \$0.0 and \$0.1, respectively) | (1.3 )                                 | (0.5 )      | (0.7 )                               | 0.2         |
| Change in defined benefit pension items (net of tax effect of (\$0.1), \$0.0, (\$1.5) and \$0.0, respectively)                                  | 2.3                                    | 0.3         | 10.0                                 | (0.2 )      |
| Net change in cumulative foreign currency translation (loss) gain (net of tax effect of \$0.2, (\$0.6), \$0.5 and (\$0.9), respectively)        | (29.7 )                                | 25.2        | (54.0 )                              | 38.6        |
| Total other comprehensive (loss) income   | (17.1 )                                | 13.4        | (27.1 )                              | 25.6        |
| Total comprehensive loss  | \$ (56.5 )                             | \$ (130.6 ) | \$ (148.9 )                          | \$ (248.0 ) |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(In millions)

(Unaudited)

|   | July 31,<br>2018 | January 31,<br>2018 |
|---|------------------|---------------------|
| <b>ASSETS</b>   |                  |                     |
| Current assets:   |                  |                     |
| Cash and cash equivalents   | \$ 895.4         | \$ 1,078.0          |
| Marketable securities   | 274.4            | 245.2               |
| Accounts receivable, net  | 234.4            | 438.2               |
| Prepaid expenses and other current assets                               | 194.6            | 116.5               |
| Total current assets  | 1,598.8          | 1,877.9             |
| Marketable securities   | 128.1            | 190.8               |
| Computer equipment, software, furniture and leasehold improvements, net | 146.8            | 145.0               |
| Developed technologies, net   | 23.7             | 27.1                |
| Goodwill  | 1,658.7          | 1,620.2             |
| Deferred income taxes, net  | 81.5             | 81.7                |
| Other assets  | 195.4            | 170.9               |
| Total assets  | \$ 3,833.0       | \$ 4,113.6          |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>                            |                  |                     |
| Current liabilities:  |                  |                     |
| Accounts payable  | \$ 82.2          | \$ 94.7             |
| Accrued compensation  | 163.2            | 250.9               |
| Accrued income taxes  | 38.8             | 28.0                |
| Deferred revenue  | 1,491.5          | 1,551.6             |
| Other accrued liabilities   | 139.4            | 198.0               |
| Total current liabilities   | 1,915.1          | 2,123.2             |
| Long-term deferred revenue  | 308.0            | 403.5               |
| Long-term income taxes payable  | 41.5             | 41.6                |
| Long-term deferred income taxes   | 88.2             | 66.6                |
| Long-term notes payable, net  | 1,587.2          | 1,586.0             |
| Other liabilities   | 134.6            | 148.7               |
| Stockholders' deficit:  |                  |                     |
| Common stock and additional paid-in capital                             | 2,012.5          | 1,952.7             |
| Accumulated other comprehensive loss                                    | (150.9 )         | (123.8 )            |
| Accumulated deficit   | (2,103.2 )       | (2,084.9 )          |
| Total stockholders' deficit   | (241.6 )         | (256.0 )            |
| Total liabilities and stockholders' deficit                             | \$ 3,833.0       | \$ 4,113.6          |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(In millions)

(Unaudited)

|   | <b>Six Months Ended</b> |             |
|---|-------------------------|-------------|
|   | <b>July 31,</b>         |             |
|   | <b>2018</b>             | <b>2017</b> |
| Operating activities:   |                         |             |
| Net loss  | \$(121.8 )              | \$(273.6 )  |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                         |             |
| Depreciation, amortization and accretion  | 46.3                    | 56.8        |
| Stock-based compensation expense  | 111.3                   | 134.4       |
| Deferred income taxes   | (0.3 )                  | 8.6         |
| Restructuring and other exit costs, net   | 36.6                    | 0.2         |
| Other operating activities  | (1.3 )                  | 7.7         |
| Changes in operating assets and liabilities   |                         |             |
| Accounts receivable   | 204.2                   | 185.5       |
| Prepaid expenses and other current assets   | 7.9                     | (2.4 )      |
| Accounts payable and accrued liabilities  | (201.3 )                | (98.6 )     |
| Deferred revenue  | (66.7 )                 | (9.9 )      |
| Accrued income taxes  | 11.5                    | (36.0 )     |
| Net cash provided by (used in) operating activities                                       | 26.4                    | (27.3 )     |
| Investing activities:   |                         |             |
| Purchases of marketable securities  | (110.1 )                | (299.7 )    |
| Sales of marketable securities  | 27.0                    | 110.8       |
| Maturities of marketable securities   | 119.6                   | 420.3       |
| Capital expenditures  | (36.7 )                 | (26.4 )     |
| Acquisitions, net of cash acquired  | (34.1 )                 | —           |
| Other investing activities  | (6.0 )                  | (4.3 )      |
| Net cash (used in) provided by investing activities                                       | (40.3 )                 | 200.7       |
| Financing activities:   |                         |             |
| Proceeds from issuance of common stock, net of issuance costs                             | 50.4                    | 55.9        |
| Taxes paid related to net share settlement of equity awards                               | (53.0 )                 | (49.8 )     |
| Repurchases of common stock   | (154.7 )                | (315.2 )    |
| Proceeds from debt, net of discount   | —                       | 496.9       |
| Repayment of debt   | —                       | (400.0 )    |
| Other financing activities  | —                       | (5.8 )      |
| Net cash used in financing activities   | (157.3 )                | (218.0 )    |
| Effect of exchange rate changes on cash and cash equivalents                              | (11.4 )                 | 5.6         |
| Net decrease in cash and cash equivalents   | (182.6 )                | (39.0 )     |
| Cash and cash equivalents at beginning of period  | 1,078.0                 | 1,213.1     |
| Cash and cash equivalents at end of period  | \$895.4                 | \$1,174.1   |
| Supplemental cash flow disclosure:  |                         |             |
| Non-cash investing activities:  |                         |             |
| Fair value of common stock issued as consideration for business combination (See Note 8)  | \$44.8                  | \$—         |

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, 2018, and for the three and six months ended July 31, 2018 and 2017, 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, 2018 are not necessarily indicative of the results for the entire fiscal year ending January 31, 2019, or for any other period. Further, the balance sheet as of January 31, 2018 has been derived from the audited Consolidated Balance Sheet as of this date. There have been no material changes, other than what is discussed herein, to Autodesk's significant accounting policies as compared to the significant accounting policies disclosed in the Annual Report on Form 10-K for the fiscal year ended January 31, 2018. 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, 2018, filed on March 22, 2018.

***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, 2018, that are of significance, or potential significance, to the Company.

**Accounting standards adopted**

Effective in the first quarter of fiscal 2019, Autodesk adopted FASB Accounting Standards Update ("ASU") No. 2017-05, "Other Income— Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets." The ASU, among other things, clarifies the scope of the derecognition of nonfinancial assets, the definition of in-substance financial assets, and impacts the accounting for partial sales of nonfinancial assets by requiring full gain recognition upon the sale. The new guidance was adopted prospectively as there was no impact on the Company's prior periods consolidated statements of financial position and results of operations which would be reflected in either the full or modified retrospective transition approach. The future effect of the adoption will depend upon the nature of the Company's future dispositions, if any.

Effective in the first quarter of fiscal 2019, Autodesk adopted FASB ASU No. 2017-01, "Business Combinations: Clarifying the Definition of a Business" which provides a more robust framework to use in determining when a set of assets and activities is considered a business. The new guidance was applied on a prospective basis and the adoption did not have any impact on Autodesk's consolidated financial statements. Any future effect of the adoption will depend upon the nature of the Company's future acquisitions, if any.

Effective in the first quarter of fiscal 2019, Autodesk adopted FASB ASU No. 2016-16, "Income Taxes: Intra-Entity Transfers of Assets Other than Inventory" which requires that entities recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. The new guidance was applied on a modified retrospective basis with a cumulative increase of \$1.9 million to the opening balance of "Accumulated deficit" at February 1, 2018. The ASU did not have any other material impacts on Autodesk's Condensed Consolidated Financial Statements.

Effective in the first quarter of fiscal 2019, Autodesk adopted FASB ASU No. 2016-01 regarding Accounting Standards Codification ("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, unless the measurement alternative method has been elected for equity investments without readily determinable fair values ("non-marketable equity securities"), 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. Under the measurement alternative method, the non-marketable equity securities will be measured at cost, less any impairment, plus or minus adjustments resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer, which will be recorded within the Condensed Consolidated Statement of Operations. The determination of whether a transaction is for a similar investment will require significant management judgment including consideration of the rights and obligations between the investments and the extent to which those differences would affect the fair values of those investments with additional consideration for the stage of development of the investee company.

Autodesk prospectively adopted the amendments related to non-marketable equity securities existing as of the date of adoption. The new standard may add volatility to the Company's statements of operations in future periods, due to changes in market prices of the Company's investments in publicly held equity investments and the valuation and timing of observable price changes and impairments of its investments in non-marketable securities. See Note 5, "Financial Instruments" for more information.

#### *Revenue from contracts with customers*

Effective in the first quarter of fiscal 2019, Autodesk adopted ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" and the subsequent and related ASU No. 2015-14, ASU No. 2016-08, ASU No. 2016-10, ASU No. 2016-12, and ASU No. 2016-20.

Under ASC Topic 606, the Company has concluded that the desktop software and related substantial cloud functionality that are included in the majority of its product subscription offerings and enterprise arrangements are not distinct in the context of the contract as they are considered highly interrelated and represent a single combined performance obligation that should be recognized over time. Therefore, the adoption of ASC Topic 606 has not resulted in a material change in the timing and amount of the recognition of revenue for the majority of the Company's product subscription offerings and enterprise arrangements.

One impact of the new standard relates to product subscriptions that do not incorporate substantial cloud functionality. A limited number of Autodesk's product subscriptions do not incorporate substantial cloud functionality, and therefore are not considered highly interrelated. Under ASU 2014-09, these limited number of product subscriptions are recognized as separate and distinct license and service performance obligations. Under ASC Topic 605, licenses sold with undelivered elements without vendor-specific objective evidence ("VSOE") are recognized ratably over the term of the undelivered elements. Under ASC Topic 606, Autodesk is no longer required to establish VSOE to recognize software license revenue separately from the other elements and recognizes software licenses once the customer obtains control of the license, which is generally upon delivery of the license. Therefore, revenue allocated to the licenses in these offerings under ASC Topic 606 is recognized at a point in time instead of over the contract term.

Autodesk adopted ASC Topic 606 using the modified retrospective method, with a cumulative decrease of \$89.0 million to the opening balance of "Accumulated deficit" at February 1, 2018. Autodesk applied the standard only to contracts that are not completed as of the date of initial application. The comparative information has not been adjusted and continues to be reported under ASC Topic 605. The details of the quantitative impact of the adoption on the three and six months ended July 31, 2018, are shown below. See Note 3, "Revenue Recognition" for disclosures under the new standard.

#### *Costs to acquire a contract from a customer*

With the adoption of ASC Topic 606, Autodesk also adopted ASC Topic 340-40, "Other Assets and Deferred Costs—Contracts with Customers." Prior to the adoption of ASC Topic 340-40, Autodesk previously recognized compensation paid to sales employees and certain resellers related to obtaining customer contracts in marketing and

sales expense in the Consolidated Statements of Operations when incurred. Under ASC Topic 340-40, Autodesk capitalizes this sales compensation as contract costs when they are incremental, directly incurred to obtain a contract with a customer and expected to be recoverable. The contract costs are amortized based on the transfer of goods or services to which the contract costs relate.

Under the modified retrospective method, Autodesk booked a cumulative decrease of \$90.4 million to the opening balance of "Accumulated deficit" at February 1, 2018. The comparative information has not been adjusted and continues to be reported as incurred. The details of the quantitative impact of the adoption on the three and six months ended July 31, 2018, are shown below. See Note 11, "Deferred Compensation" for disclosures under the new standard.

*Quantitative effect of ASC Topic 606 and 340-40 adoption*

The following table shows select line items that were materially impacted by the adoption of ASC Topics 606 and 340-40 on Autodesk's unaudited Condensed Consolidated Statements of Operations for the three and six months ended July 31, 2018:

|  | For the Three Months Ended<br>July 31, 2018 |   |                | For the Six Months Ended July<br>31, 2018 |   |                |
|--|---|---|----------------|---|---|----------------|
|  | As<br>Reported                              | Impact<br>from the<br>adoption<br>of ASC<br>606 and<br>340-40 | As<br>Adjusted | As<br>Reported                            | Impact<br>from the<br>adoption<br>of ASC<br>606 and<br>340-40 | As<br>Adjusted |
| Net revenue (1)                              |   |   |                |   |   |                |
| Subscription                                 | \$420.6                                     | \$ (4.6 )   | \$ 416.0       | \$771.0                                   | \$ 1.7  | \$ 772.7       |
| Maintenance                                  | 166.4                                       | (1.1 )  | 165.3          | 347.6                                     | 4.3   | 351.9          |
| Other  | 24.7  | 4.5   | 29.2           | 53.0                                      | 6.4   | 59.4           |
| Cost of revenue (1)                          |   |   |                |   |   |                |
| Cost of subscription and maintenance revenue | 54.1  | —   | 54.1           | 104.5                                     | (0.1 )  | 104.4          |
| Cost of other revenue                        | 12.3  | 0.4   | 12.7           | 25.1                                      | 0.7   | 25.8           |
| Operating expenses (1):                      |   |   |                |   |   |                |
| Marketing and sales                          | 289.1                                       | (10.8 )   | 278.3          | 565.5                                     | (24.4 )   | 541.1          |
| Provision for income taxes                   | (16.0 )                                     | 3.1   | (12.9 )        | (34.6 )                                   | (1.5 )  | (36.1 )        |
| Net loss (2)                                 | \$(39.4 )                                   | \$ 12.3   | \$(27.1 )      | \$(121.8 )                                | \$ 34.7   | \$(87.1 )      |
| Basic net loss per share                     | \$(0.18 )                                   | \$ 0.06   | \$(0.12 )      | \$(0.56 )                                 | \$ 0.16   | \$(0.40 )      |
| Diluted net loss per share                   | \$(0.18 )                                   | \$ 0.06   | \$(0.12 )      | \$(0.56 )                                 | \$ 0.16   | \$(0.40 )      |

(1) While not shown here, gross margin, loss from operations, and loss before income taxes have consequently been affected as a result of the net effect of the adjustments noted above.

(2) The impact on the unaudited Condensed Consolidated Statements of Comprehensive Loss is limited to the net effects of the impacts noted above on the Condensed Consolidated Statements of Operations, specifically on the line item "Net loss."

The following table shows select line items that were materially impacted by the adoption of ASC Topics 606 and 340-40 on Autodesk's unaudited Condensed Consolidated Balance Sheet as of July 31, 2018:

|   | As<br>reported | Impact<br>from the<br>adoption<br>of ASC<br>606 and<br>340-40 | As<br>Adjusted |
|---|----------------|---|----------------|
| <b>ASSETS</b>                                 |                |   |                |
| Current assets:                               |                |   |                |
| Accounts receivable, net                      | \$ 234.4       | \$ 53.0   | \$ 287.4       |
| Prepaid expenses and other current assets (1) | 194.6          | (70.1 )   | 124.5          |
| Deferred income taxes, net                    | 81.5           | 11.0  | 92.5           |
| Other assets (1)                              | 195.4          | (18.0 )   | 177.4          |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>  |                |   |                |
| Current liabilities:                          |                |   |                |
| Accrued income taxes                          | 38.8           | (1.4 )  | 37.4           |
| Deferred revenue                              | 1,491.5        | 99.1  | 1,590.6        |
| Other accrued liabilities                     | 139.4          | 2.4   | 141.8          |
| Long-term deferred revenue                    | 308.0          | 25.3  | 333.3          |
| Long-term income taxes payable                | 41.5           | (0.2 )  | 41.3           |
| Long-term deferred income taxes               | 88.2           | (4.6 )  | 83.6           |
| Accumulated deficit (2)                       | (2,103.2)      | (144.7 )  | (2,247.9)      |

(1) Short term and long term "contract assets" under ASC Topic 606 are included within "Prepaid expenses and other current assets" and "Other assets", respectively, on the unaudited Condensed Consolidated Balance Sheet.

(2) Included in the "Accumulated deficit" adjustment is \$179.4 million for the cumulative effect adjustment of adopting ASC Topic 606 and 340-40 on the opening balance as of February 1, 2018.

Adoption of the standard had no impact to net cash provided by or (used in) operating, financing, or investing activities on the Company's unaudited Condensed Consolidated Statements of Cash Flows.

#### Recently issued accounting standards not yet adopted

In February 2018, FASB issued ASU No. 2018-02, "Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." The amendment allows entities to reclassify stranded tax effects resulting from the Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings. The amendment only impacts the income tax effect of the passage of the Tax Cuts and Jobs Act but does not affect the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations. The amendment is effective for Autodesk's fiscal year beginning February 1, 2019, unless Autodesk elects early adoption, which Autodesk is still evaluating. Autodesk is currently evaluating the accounting, transition, and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

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

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

In February 2016, FASB issued ASU No. 2016-02, Leases (ASC Topic 842) to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing transactions. The new standard requires entities to reflect the net present value of all future fixed lease payments for both operating and finance leases. It also requires entities to disclose fixed and variable lease payments separately and by lease type (operating vs. finance leases). ASU 2016-02 requires a modified retrospective approach with optional practical expedients.



Autodesk has elected to not reassess the lease classification of existing leases and to combine lease and non-lease components for new leases post adoption. Autodesk is currently in the process of evaluating if it will elect any of the other remaining practical expedient options. In addition, FASB issued ASU No. 2018-10 and 2018-11 in July 2018, to help provide interpretive clarifications on various issues raised by stakeholders. ASU 2018-10 clarifies ambiguous or potentially conflicting guidance in ASU 2016-02 but is not expected to have a material impact on Autodesk. ASU 2018-11 provides an additional transition option to apply ASU 2016-02 upon adoption of the new standard. Autodesk will use this option and apply ASU 2016-02 to leases active as of the adoption date of the new standard, February 1, 2019.

Autodesk has made and will continue to make investments in systems and processes to enable timely and accurate reporting under ASC Topic 842. Autodesk currently expects that necessary operational changes will be implemented prior to the adoption date and expects that most of its lease commitments will be subject to the updated standard and recognized as lease liabilities and right-of-use assets upon adoption. Autodesk is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures and cannot currently estimate the financial statement impact of adoption.

### **3. Revenue Recognition**

#### *Revenue Recognition*

Autodesk's revenue is divided into three categories: subscription revenue, maintenance revenue, and other revenue. Revenue is recognized when control for these offerings is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for products and services.

Our contracts with customers may include promises to transfer multiple products and services to a customer. Determining whether the products and services are considered distinct performance obligations that should be accounted for separately or as one combined performance obligation may require significant judgment. Judgment is required to determine the level of integration and interdependency between individual components of software and cloud functionality. This determination influences whether the software is considered distinct and accounted for separately as a license performance obligation, or not distinct and accounted for together with the cloud functionality as a single subscription performance obligation recognized over time.

For product subscriptions, industry collections, and enterprise business agreement ("EBA") subscriptions in which the desktop software and related cloud functionality are highly interrelated, the combined performance obligation is recognized ratably over the contract term as the obligation is delivered. For contracts involving distinct software licenses, the license performance obligation is satisfied at a point in time when control is transferred to the customer. For standalone maintenance subscriptions, cloud subscriptions, and technical support services, the performance obligation is satisfied ratably over the contract term as those services are delivered. For consulting services, the performance obligation is satisfied over a period of time as those services are delivered.

When an arrangement includes multiple performance obligations which are concurrently delivered and have the same pattern of transfer to the customer (the services transfer to the customer over the contract period), we account for those performance obligations as a single performance obligation.

For contracts with more than one performance obligation, the transaction price is allocated among the performance obligations in an amount that depicts the relative standalone selling price ("SSP") of each obligation. Judgment is required to determine the SSP for each distinct performance obligation. We use a range of amounts to estimate SSP when we sell each of the products and services separately and need to determine whether there is a discount that should be allocated based on the relative SSP of the various products and services.

In instances where SSP is not directly observable, such as when we do not sell the product or service separately, we determine the SSP using information that includes market conditions and other observable inputs. We typically have more than one SSP for individual products and services due to the stratification of those products and services by customer and circumstance. In these instances, we use relevant information such as the sales channel and geographic region to determine the SSP.

Our indirect channel model includes both a two-tiered distribution structure, where Autodesk sells to distributors that subsequently sell to resellers, and a one-tiered structure where Autodesk sells directly to resellers. For these arrangements, transfer of control begins at the time access to our subscriptions is made available electronically to our customer, provided all other criteria for revenue recognition are met. Judgment is required to determine whether our distributors and resellers have the

ability to honor their commitment to pay, regardless of whether they collect payment from their customers. If we were to change this assessment, it could cause a material increase or decrease in the amount of revenue that we report in a particular period.

As part of the indirect channel model, we have a partner incentive program that uses quarterly attainment of monetary rewards to motivate distributors and resellers to achieve mutually agreed upon business goals in a specified time period. Incentives related to our subscription program are recorded as a reduction to deferred revenue in the period the subscription transaction is billed, and are subsequently recognized as a reduction to subscription revenue over the contract period. A small portion of partner incentives reduce other revenue in the current period. These incentive balances do not require significant assumptions or judgments. Depending on how the payments are made, the reserves associated with the partner incentive program are recorded on the balance sheet as either contra accounts receivable or accounts payable.

### *Revenue Disaggregation*

Autodesk recognizes revenue from the sale of (1) product subscriptions, cloud service offerings, and flexible enterprise business arrangements ("EBAs"), (2) renewal fees for existing maintenance plan agreements that were initially purchased with a perpetual software license, and (3) consulting, training and other goods and services. The three categories are presented as line items on Autodesk's unaudited Condensed Consolidated Statements of Operations.

Information regarding the components of Autodesk's net revenue from contracts with customers by geographic location, product family, and sales channel is as follows:

|  | <b>Three Months<br/>Ended July 31,</b> |             | <b>Six Months Ended<br/>July 31,</b> |             |
|--|--|-------------|--------------------------------------|-------------|
|  | <b>2018</b>                            | <b>2017</b> | <b>2018</b>                          | <b>2017</b> |
| Net revenue by product family (1):         |  |             |                                      |             |
| Architecture, Engineering and Construction | \$243.1                                | \$189.6     | \$464.9                              | \$375.5     |
| Manufacturing                              | 146.1                                  | 132.3       | 281.5                                | 260.6       |
| AutoCAD and AutoCAD LT                     | 176.6                                  | 135.6       | 332.2                                | 264.6       |
| Media and Entertainment                    | 41.7                                   | 38.0        | 83.5                                 | 74.5        |
| Other                                      | 4.2                                    | 6.3         | 9.5                                  | 12.3        |
| Total net revenue                          | \$611.7                                | \$501.8     | \$1,171.6                            | \$987.5     |
| Net revenue by geographic area:            |  |             |                                      |             |
| Americas                                   |  |             |                                      |             |
| U.S.                                       | \$205.2                                | \$184.6     | \$401.1                              | \$364.4     |
| Other Americas                             | 42.3                                   | 29.4        | 79.9                                 | 59.7        |
| Total Americas                             | 247.5                                  | 214.0       | 481.0                                | 424.1       |
| Europe, Middle East and Africa             | 248.3                                  | 199.3       | 469.2                                | 389.0       |
| Asia Pacific                               | 115.9                                  | 88.5        | 221.4                                | 174.4       |
| Total net revenue                          | \$611.7                                | \$501.8     | \$1,171.6                            | \$987.5     |
| Net revenue by sales channel:              |  |             |                                      |             |
| Indirect                                   | \$440.2                                | \$354.7     | \$838.5                              | \$694.8     |
| Direct                                     | 171.5                                  | 147.1       | 333.1                                | 292.7       |
| Total net revenue                          | \$611.7                                | \$501.8     | \$1,171.6                            | \$987.5     |

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(1) Due to changes in the go-to-market offerings of our AutoCAD product subscription, prior period balances have been adjusted to conform to current period presentation.

Payments for product subscriptions, industry collections, cloud subscriptions, and maintenance subscriptions are typically due up front with payment terms of 30 to 45 days. Payments on EBAs are typically due in annual installments over the contract term, with payment terms of 30 to 45 days. Autodesk does not have any material variable consideration, such as obligations for returns, refunds, warranties or amounts due to customers for which significant estimation or judgment is required as of the reporting date.

As of July 31, 2018, Autodesk had total billed and unbilled deferred revenue of \$2.2 billion, which represents the total contract price allocated to undelivered performance obligations, which are generally recognized over the next three years. We expect to recognize \$1.6 billion or 74% of this revenue during the next 12 months. We expect to recognize the remaining \$0.6 billion or 26% of this revenue thereafter.

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

#### *Contract Balances*

We receive payments from customers based on a billing schedule as established in our contracts. Contract assets relate to performance completed in advance of scheduled billings. Contract assets were not material as of July 31, 2018. Deferred revenue relates to payments received in advance of performance under the contract. The primary changes in our contract assets and deferred revenues are due to our performance under the contracts and billings.

Revenue recognized during the six months ended July 31, 2018, that was included in the deferred revenue balances at January 31, 2018, was \$922.5 million. The satisfaction of performance obligations typically lags behind payments received under revenue contracts from customers, which may lead to an increase in our deferred revenue balance over time.

#### **4. 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 35% of Autodesk's total net revenue for both the three and six months ended July 31, 2018 and 31% and 30% for the three and six months ended July 31, 2017, respectively. The majority of the net revenue from sales to Tech Data is for sales made outside of the United States. In addition, Tech Data accounted for 32% and 31% of trade accounts receivable at July 31, 2018 and January 31, 2018, respectively. No other customer accounted for more than 10% of Autodesk's total net revenue or trade accounts receivable for each of the respective periods.

## 5. 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, 2018 and January 31, 2018:

|                                     | July 31, 2018     |                              |                               |               |         |         |            |
|-------------------------------------|-------------------|------------------------------|-------------------------------|---------------|---------|---------|------------|
|                                     | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value | Level 1 | Level 2 | Level<br>3 |
| Cash equivalents (1):               |                   |                              |                               |               |         |         |            |
| Agency bonds                        | \$5.0             | \$ —                         | \$ —                          | \$5.0         | \$—     | \$5.0   | \$—        |
| Certificates of deposit             | 11.5              | —                            | —                             | 11.5          | —       | 11.5    | —          |
| Commercial paper                    | 269.5             | —                            | —                             | 269.5         | —       | 269.5   | —          |
| Custody cash deposit                | 1.7               | —                            | —                             | 1.7           | 1.7     | —       | —          |
| Municipal bonds                     | 5.0               | —                            | —                             | 5.0           | —       | 5.0     | —          |
| Money market funds                  | 122.9             | —                            | —                             | 122.9         | 122.9   | —       | —          |
| Sovereign debt                      | 5.0               | —                            | —                             | 5.0           | —       | 5.0     | —          |
| U.S. government securities          | 11.5              | —                            | —                             | 11.5          | —       | 11.5    | —          |
| Marketable securities:              |                   |                              |                               |               |         |         |            |
| Short-term                          |                   |                              |                               |               |         |         |            |
| Agency bonds                        | 12.5              | —                            | —                             | 12.5          | —       | 12.5    | —          |
| Asset backed securities             | 12.1              | —                            | —                             | 12.1          | —       | 12.1    | —          |
| Certificates of deposit             | 7.7               | —                            | —                             | 7.7           | —       | 7.7     | —          |
| Commercial paper                    | 62.7              | —                            | —                             | 62.7          | —       | 62.7    | —          |
| Corporate debt securities           | 64.9              | —                            | (0.2 )                        | 64.7          | —       | 64.7    | —          |
| Municipal bonds                     | 5.0               | —                            | —                             | 5.0           | —       | 5.0     | —          |
| Sovereign debt                      | 6.5               | —                            | —                             | 6.5           | —       | 6.5     | —          |
| U.S. government securities          | 41.4              | —                            | (0.2 )                        | 41.2          | —       | 41.2    | —          |
| Short-term trading securities       |                   |                              |                               |               |         |         |            |
| Mutual funds                        | 53.9              | 8.1                          | —                             | 62.0          | 62.0    | —       | —          |
| Long-term                           |                   |                              |                               |               |         |         |            |
| Agency bonds                        | 12.5              | —                            | (0.1 )                        | 12.4          | —       | 12.4    | —          |
| Asset backed securities             | 27.1              | —                            | (0.3 )                        | 26.8          | —       | 26.8    | —          |
| Corporate debt securities           | 74.0              | 0.1                          | (0.5 )                        | 73.6          | —       | 73.6    | —          |
| Municipal bonds                     | 7.7               | —                            | (0.1 )                        | 7.6           | —       | 7.6     | —          |
| U.S. government securities          | 5.0               | —                            | —                             | 5.0           | —       | 5.0     | —          |
| Sovereign debt                      | 2.7               | —                            | —                             | 2.7           | —       | 2.7     | —          |
| Convertible debt securities (2)     | 7.5               | 1.4                          | (2.3 )                        | 6.6           | —       | —       | 6.6        |
| Derivative contract assets (3)      | 1.7               | 12.8                         | (1.6 )                        | 12.9          | —       | 12.0    | 0.9        |
| Derivative contract liabilities (4) | —                 | —                            | (6.9 )                        | (6.9 )        | —       | (6.9 )  | —          |
| Total                               | \$837.0           | \$ 22.4                      | \$ (12.2 )                    | \$847.2       | \$186.6 | \$653.1 | \$7.5      |

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

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

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

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



|                                     | January 31, 2018  |                              |                               |            |         |         |            |
|-------------------------------------|-------------------|------------------------------|-------------------------------|------------|---------|---------|------------|
|                                     | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value | Level 1 | Level 2 | Level<br>3 |
| Cash equivalents (1):               |                   |                              |                               |            |         |         |            |
| Agency bonds                        | \$5.0             | \$ —                         | \$ —                          | \$5.0      | \$5.0   | \$—     | \$—        |
| Certificates of deposit             | 17.4              | —                            | —                             | 17.4       | 17.4    | —       | —          |
| Commercial paper                    | 324.2             | —                            | —                             | 324.2      | —       | 324.2   | —          |
| Corporate debt securities           | 5.0               | —                            | —                             | 5.0        | 5.0     | —       | —          |
| Custody cash deposit                | 5.2               | —                            | —                             | 5.2        | 5.2     | —       | —          |
| Money market funds                  | 278.8             | —                            | —                             | 278.8      | —       | 278.8   | —          |
| Municipal bonds                     | 5.0               | —                            | —                             | 5.0        | 5.0     | —       | —          |
| Sovereign debt                      | 2.0               | —                            | —                             | 2.0        | —       | 2.0     | —          |
| Marketable securities:              |                   |                              |                               |            |         |         |            |
| Short-term                          |                   |                              |                               |            |         |         |            |
| Asset backed securities             | 13.1              | —                            | —                             | 13.1       | —       | 13.1    | —          |
| Commercial paper                    | 27.5              | —                            | —                             | 27.5       | —       | 27.5    | —          |
| Corporate debt securities           | 99.4              | —                            | (0.1 )                        | 99.3       | 99.3    | —       | —          |
| Other (2)                           | 9.2               | —                            | —                             | 9.2        | 7.7     | 1.5     | —          |
| U.S. government securities          | 37.1              | —                            | —                             | 37.1       | 37.1    | —       | —          |
| Short-term trading securities       |                   |                              |                               |            |         |         |            |
| Mutual funds                        | 50.1              | 8.9                          | —                             | 59.0       | 59.0    | —       | —          |
| Long-term                           |                   |                              |                               |            |         |         |            |
| Agency bonds                        | 13.7              | —                            | (0.1 )                        | 13.6       | 13.6    | —       | —          |
| Asset backed securities             | 36.8              | —                            | (0.2 )                        | 36.6       | —       | 36.6    | —          |
| Corporate debt securities           | 100.2             | 0.1                          | (0.4 )                        | 99.9       | 99.9    | —       | —          |
| Municipal bonds                     | 12.7              | —                            | (0.1 )                        | 12.6       | 12.6    | —       | —          |
| Sovereign debt                      | 2.8               | —                            | —                             | 2.8        | —       | 2.8     | —          |
| U.S. government securities          | 25.5              | —                            | (0.2 )                        | 25.3       | 25.3    | —       | —          |
| Convertible debt securities (3)     | 7.5               | 0.5                          | (0.2 )                        | 7.8        | —       | —       | 7.8        |
| Derivative contract assets (4)      | 2.0               | 7.5                          | (1.3 )                        | 8.2        | —       | 7.2     | 1.0        |
| Derivative contract liabilities (5) | —                 | —                            | (26.6 )                       | (26.6 )    | —       | (26.6 ) | —          |
| Total                               | \$1,080.2         | \$ 17.0                      | \$ (29.2 )                    | \$1,068.0  | \$392.1 | \$667.1 | \$ 8.8     |

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

(2) Consists of agency bonds, certificates of deposit, sovereign debt, and municipal bonds.

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

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

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

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

Autodesk applies fair value accounting for certain financial assets and liabilities, which consist of cash equivalents, marketable securities and other financial instruments, that are recognized or disclosed at fair value in the financial



statements on a recurring basis. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs other than quoted prices in active markets for

identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and (Level 3) unobservable inputs for which there is little or no market data, which require Autodesk to develop its own assumptions. When determining fair value, Autodesk uses observable market data and relies on unobservable inputs only when observable market data is not available. Autodesk reviews its leveling classifications for any potential changes on a quarterly basis, in conjunction with our fiscal quarter-end close. As part of this assessment, Autodesk transferred the fair value measurement of \$245.2 million between Level 1 to Level 2 and \$122.9 million between Level 2 to Level 1 during the six months ended July 31, 2018. It is Autodesk's assessment that the leveling best reflects current market activity when observing the pricing information for these assets.

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 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, 2018 follows:

|                            | <b>Fair Value Measurements Using<br/>Significant Unobservable Inputs<br/>(Level 3)</b> |  |              |
|----------------------------|--|--|--------------|
|                            | <b>Derivative<br/>Contracts</b>  | <b>Convertible<br/>Debt<br/>Securities</b> | <b>Total</b> |
| Balances, January 31, 2018 | \$ 1.0   | \$ 7.8                                     | \$ 8.8       |
| Purchases                  | —  | —  | —            |
| Loss included in earnings  | (0.1 )   | —  | (0.1 )       |
| Loss included in OCI       | —  | (1.2 )                                     | (1.2 )       |
| Balances, July 31, 2018    | \$ 0.9   | \$ 6.6                                     | \$ 7.5       |

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

|                                 | <b>July 31, 2018</b> |                   |
|---------------------------------|----------------------|-------------------|
|                                 | <b>Cost</b>          | <b>Fair Value</b> |
| Due within 1 year               | \$220.3              | \$ 219.0          |
| Due in 1 year through 5 years   | 124.3                | 123.4             |
| Due in 5 years through 10 years | 3.7                  | 3.7               |
| Due after 10 years              | 1.0                  | 1.0               |
| Total                           | \$349.3              | \$ 347.1          |

As of July 31, 2018, and January 31, 2018, Autodesk had no material securities, individually and in the aggregate, in a continuous unrealized loss position for greater than twelve months.

There was no loss or gain for the sales or redemptions of securities during the six months ended July 31, 2018. Gains and losses resulting from the sale or redemption of securities are recorded in "Interest and other income (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, 2018 and 2017, were \$146.6 million and \$531.1 million, respectively.

*Non-marketable equity securities*

As of July 31, 2018, and January 31, 2018, Autodesk had \$113.1 million and \$112.3 million, respectively, in direct investments in privately held companies. These non-marketable equity securities investments do not have readily determined

fair value and with the adoption of ASU 2016-01 during the first quarter of fiscal 2019, Autodesk elected to use the measurement alternative to account for the adjustment to these investments in a given quarter. See "Note 2. Recently Issued Accounting Standards" for more details on the adoption.

Under the measurement alternative method, these investments are measured at cost, less any impairments, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer in the current period. To determine if a transaction is for a similar investment, Autodesk considers the rights and obligations between the investments and the extent to which those differences would affect the fair values of those investments with additional consideration for the stage of development of the investee company. The fair value would then be adjusted positively or negatively based on available information such as pricing in recent rounds of financing. During the six months ended July 31, 2018 and cumulative since the adoption of ASU 2016-01 in the first quarter of fiscal 2019, Autodesk recorded \$6.2 million as a positive adjustment on certain of its privately held investments, reflected as a gain in "Interest and other income (expense), net" on the Company's Condensed Consolidated Statement of Operations.

Non-marketable equity securities investments are periodically assessed for impairment based on available information such as current cash positions, earnings and cash flow positions, earnings and cash flow forecasts, recent operational performance and any other readily available market data. Autodesk does not intend to sell these investments and it is not more likely than not that Autodesk will be required to sell the investment before recovery of the amortized cost basis. If Autodesk determines that an impairment has occurred, Autodesk writes down the investment to its fair value. During the three and six months ended July 31, 2018, Autodesk recorded \$2.8 million and \$4.8 million, respectively, in impairments on its privately held investments. Therefore, Autodesk does not consider the remaining investments to be impaired at July 31, 2018. During the three and six months ended July 31, 2017, Autodesk recorded \$3.6 million and \$4.1 million, respectively, in impairments on its privately held investments.

#### *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 primarily 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 income (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 \$639.3 million at July 31, 2018, and \$619.9 million at January 31, 2018. Outstanding contracts are recognized as either assets or liabilities on the balance sheet at fair value. The majority of the net gain of \$1.0 million remaining in “Accumulated other comprehensive loss” as of July 31, 2018, 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 in “Interest and other income (expense), net.” These derivative instruments do not subject the Company to material balance sheet risk due to exchange rate movements because gains and losses on these derivative instruments are intended to offset the gains or losses resulting from the settlement of the underlying foreign currency denominated receivables and payables. The net notional amounts of these foreign currency contracts are presented net settled and were \$339.0 million at July 31, 2018, and \$329.6 million at January 31, 2018.

In addition to these foreign currency contracts, Autodesk holds derivative instruments issued by privately held companies, which are not designated as hedging instruments. These derivatives consist of certain conversion options on the convertible debt securities held by Autodesk and an option to acquire a privately held company. These derivatives are recorded at fair value as of each balance sheet date and are recorded in “Other assets.” Changes in the fair values of these instruments are recognized in “Interest and other income (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, 2018 and January 31, 2018:

|   | Balance Sheet Location                                     | Fair Value at<br>July 31, 2018    January 31, 2018 |         |
|---|--|--|---------|
| <i>Derivative Assets</i>                                  |  |  |         |
| Foreign currency contracts designated as cash flow hedges | Prepaid expenses and other current assets                  | \$ 10.4  | \$ 6.2  |
| Derivatives not designated as hedging instruments         | Prepaid expenses and other current assets and Other assets | 2.5  | 2.0     |
| Total derivative assets                                   |  | \$ 12.9  | \$ 8.2  |
| <i>Derivative Liabilities</i>                             |  |  |         |
| Foreign currency contracts designated as cash flow hedges | Other accrued liabilities                                  | \$ 4.6   | \$ 18.7 |
| Derivatives not designated as hedging instruments         | Other accrued liabilities                                  | 2.3  | 7.9     |
| Total derivative liabilities                              |  | \$ 6.9   | \$ 26.6 |

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, 2018 and 2017 (amounts presented include any income tax effects):

|   | Foreign Currency Contracts<br>Three Months    Six Months<br>Ended July 31,    Ended July 31,<br>2018    2017    2018    2017 |           |           |            |
|---|--|-----------|-----------|------------|
| <i>Amount of gain (loss) recognized in accumulated other comprehensive loss on derivatives (effective portion)</i>  | \$ 6.4   | \$ (9.3 ) | \$ 13.3   | \$ (11.4 ) |
| <i>Amount and location of (loss) gain reclassified from accumulated other comprehensive loss into (loss) income (effective portion)</i>                   |  |           |           |            |
| Net revenue   | \$ (3.5 )  | \$ 2.8    | \$ (6.0 ) | \$ 4.8     |
| Operating expenses  | (1.6 )   | (0.5 )    | 1.7       | (3.2 )     |
| Total   | \$ (5.1 )  | \$ 2.3    | \$ (4.3 ) | \$ 1.6     |
| <i>Amount and location of gain (loss) recognized in (loss) income on derivatives (ineffective portion and amount excluded from effectiveness testing)</i> |  |           |           |            |

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|  |       |       |       |          |
|--|-------|-------|-------|----------|
| Interest and other income (expense), net | \$0.7 | \$0.1 | \$0.5 | \$(0.1 ) |
|--|-------|-------|-------|----------|

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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, 2018 and 2017 (amounts presented include any income tax effects):

|   | <b>Three<br/>Months<br/>Ended July<br/>31,<br/>2018</b> |             | <b>Six Months<br/>Ended July<br/>31,<br/>2018</b> |             |
|---|---|-------------|---|-------------|
|   | <b>2018</b>   | <b>2017</b> | <b>2018</b>                                       | <b>2017</b> |
| <i>Amount and location of gain (loss) recognized on derivatives in net (loss)</i> |   |             |   |             |
| Interest and other income (expense), net  | \$1.4   | \$(6.5 )    | \$6.0   | \$(8.3 )    |



## 6. Stock-based Compensation Expense

### Restricted Stock Units:

A summary of restricted stock activity for the six months ended July 31, 2018, is as follows:

|   | Unvested<br>Restricted<br>Stock Units<br>(in thousands) | Weighted<br>average grant<br>date fair value<br>per share |
|---|---|---|
| Unvested restricted stock units at January 31, 2018 | 5,670.7   | \$ 82.94  |
| Granted   | 476.7   | 142.47  |
| Vested  | (989.6)   | 79.10   |
| Canceled/Forfeited                                  | (411.0)   | 85.49   |
| Performance Adjustment (1)                          | 29.9  | 96.04   |
| Unvested restricted stock units at July 31, 2018    | 4,776.7   | \$ 90.34  |

(1) Based on Autodesk's financial results and relative total stockholder return for the fiscal 2018 performance period. The performance stock units were attained at rates ranging from 90.0% to 117.6% of the target award.

The fair value of the shares vested during the six months ended July 31, 2018 and 2017 was \$133.7 million and \$116.9 million, respectively.

During the six months ended July 31, 2018, Autodesk granted 0.3 million restricted stock units. Autodesk recorded stock-based compensation expense related to restricted stock units of \$44.1 million and \$52.0 million during the three months ended July 31, 2018 and 2017, respectively. Autodesk recorded stock-based compensation expense related to restricted stock units of \$85.8 million and \$102.0 million during the six months ended July 31, 2018 and 2017, respectively. The \$52.0 million and \$102.0 million of stock-based compensation expense for the three and six months ended July 31, 2017, respectively, includes \$5.9 million and \$9.1 million, respectively, related to the acceleration of eligible restricted stock awards in conjunction with the Company's former CEO's transition agreement.

During the six months ended July 31, 2018, Autodesk granted 0.2 million performance stock units for which the ultimate number of shares earned is determined based on the achievement of performance criteria at the end of the stated service and performance period. The performance criteria for the performance stock units are based on Annualized Recurring Revenue ("ARR") and free cash flow per share goals adopted by the Compensation and Human Resource Committee, as well as total stockholder return compared against companies in the S&P Computer Software Select Index or the S&P North American Technology Software Index ("Relative TSR"). These performance stock units vest over a three-year period and have the following vesting schedule:

• Up to one third of the performance stock units may vest following year one, depending upon the achievement of the performance criteria for fiscal 2019 as well as 1-year Relative TSR (covering year one).

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

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

Performance stock units are not considered outstanding stock at the time of grant, as the holders of these units are not entitled to any of the rights of a stockholder, including voting rights. Autodesk has determined the grant date fair value for these awards using the stock price on the date of grant or if the awards are also subject to a market condition, a Monte Carlo simulation model. The fair value of the performance stock units is expensed using the accelerated attribution over the vesting period. Autodesk recorded stock-based compensation expense related to performance stock units of \$5.9 million and \$9.7 million for the three months ended July 31, 2018 and 2017, respectively. Autodesk recorded stock-based compensation expense related to performance stock units of \$12.4 million and \$20.6 million for the six months ended July 31, 2018 and 2017, respectively. The \$9.7 million and \$20.6 million of stock-based compensation expense for the three and six months ended July

31, 2017, respectively, includes \$2.8 million and \$7.5 million, respectively, related to the acceleration of eligible performance stock awards in conjunction with the Company's former CEO's transition agreement.

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

Under Autodesk's ESPP, which was approved by stockholders in 1998, eligible employees may purchase shares of Autodesk's common stock at their discretion using up to 15% of their eligible compensation, subject to certain limitations, at 85% of the lower of Autodesk's closing price (fair market value) on the offering date or the exercise date. The offering period for ESPP awards consists of four, six-month exercise periods within a 24-month offering period.

A summary of the ESPP activity for the six months ended July 31, 2018 and 2017, is as follows:

|   | <b>Six Months<br/>Ended July 31,<br/>2018    2017</b> |         |
|---|---|---------|
| Issued shares   | 0.5   | 1.1     |
| Average price of issued shares  | \$88.45   | \$38.34 |
| Weighted average grant date fair value of awards granted under the ESPP (1) | \$37.64   | \$25.13 |

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

*Stock-based Compensation Expense*

The following table summarizes stock-based compensation expense for the three and six months ended July 31, 2018 and 2017, respectively, as follows:

|   | <b>Three Months<br/>Ended July 31,<br/>2018    2017</b> |        | <b>Six Months Ended<br/>July 31,<br/>2018    2017</b> |         |
|---|---|--------|---|---------|
| Cost of subscription and maintenance revenue  | \$3.1   | \$2.9  | \$5.8   | \$5.7   |
| Cost of other revenue   | 0.9   | 1.0    | 1.7   | 2.1     |
| Marketing and sales   | 25.9  | 26.0   | 49.9  | 52.4    |
| Research and development  | 18.7  | 20.4   | 36.5  | 41.6    |
| General and administrative  | 8.3   | 17.3   | 17.4  | 32.6    |
| Stock-based compensation expense related to stock awards and ESPP purchases             | 56.9  | 67.6   | 111.3   | 134.4   |
| Tax benefit   | (0.2 )  | (0.3 ) | (0.6 )  | (0.3 )  |
| Stock-based compensation expense related to stock awards and ESPP purchases, net of tax | \$56.7  | \$67.3 | \$110.7   | \$134.1 |

*Stock-based Compensation Expense Assumptions*

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

|                                    | <b>Three Months Ended July 31, 2018</b> |              | <b>Three Months Ended July 31, 2017</b> |              |
|------------------------------------|---|--------------|---|--------------|
|                                    | <b>Performance Stock Unit</b>           | <b>ESPP</b>  | <b>Performance Stock Unit</b>           | <b>ESPP</b>  |
| Range of expected volatilities     | —%                                      | N/A          | 31.8%                                   | N/A          |
| Range of expected lives (in years) | N/A                                     | N/A          | N/A                                     | N/A          |
| Expected dividends                 | —%                                      | N/A          | —%                                      | N/A          |
| Range of risk-free interest rates  | —%                                      | N/A          | 1.2%                                    | N/A          |
|                                    | <b>Six Months Ended July 31, 2018</b>   |              | <b>Six Months Ended July 31, 2017</b>   |              |
|                                    | <b>Performance Stock Unit</b>           | <b>ESPP</b>  | <b>Performance Stock Unit</b>           | <b>ESPP</b>  |
| Range of expected volatilities     | 35.7%                                   | 33.5 - 37.5% | 31.8%                                   | 31.4 - 33.7% |
| 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  | 2.0%                                    | 1.9 - 2.3%   | 1.0 - 1.2%                              | 0.9 - 1.3%   |

Autodesk estimates expected volatility for stock-based awards based on the average of the following two measures: (1) a measure of historical volatility in the trading market for the Company's common stock, and (2) the implied volatility of traded forward call options to purchase shares of the Company's common stock. The expected volatility for performance stock units subject to market conditions includes the expected volatility of Autodesk's peer companies within the S&P Computer Software Select Index or S&P North American Technology Software Index with a market capitalization over \$2.0 billion, depending on the award type.

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

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

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

Autodesk recognizes expense only for the stock-based awards that ultimately vest. Autodesk accounts for forfeitures of our stock-based awards as those forfeitures occur.

**7. Income Tax**

Autodesk had income tax expense of \$16.0 million, relative to pre-tax losses of \$23.4 million for the three months ended July 31, 2018, and income tax expense of \$17.6 million, relative to pre-tax losses of \$126.4 million for the three months ended July 31, 2017. Autodesk had income tax expense of \$34.6 million, relative to pre-tax losses of \$87.2 million for the six months ended July 31, 2018, and income tax expense of \$25.8 million, relative to pre-tax losses of \$247.8 million for the six months ended July 31, 2017. The variance between the three months ended July 31, 2017

and July 31, 2018 was mainly due to a net tax benefit from an internal structure realignment in connection with the closure of our Switzerland operations. The tax benefit was partially offset with income taxes in profitable jurisdictions and withholdings taxes. Income tax expense for the six months ended July 31, 2018 increased primarily due to increased worldwide earnings, foreign taxes, and withholding taxes.

Autodesk regularly assesses the need for a valuation allowance against its deferred tax assets. In making that assessment, Autodesk considers both positive and negative evidence related to the likelihood of realization of the deferred tax assets to determine, based on the weight of available evidence, whether it is more likely than not that some or all of the deferred tax assets will not be realized. In evaluating the need for a valuation allowance, Autodesk considered cumulative losses in the United States arising from the Company's business model transition as a significant piece of negative evidence and established a valuation allowance against the Company's U.S. deferred tax assets in fiscal 2016. Based on the positive and negative evidence as of July 31, 2018, the Company continues to maintain a valuation allowance for the U.S. deferred tax assets.

As of July 31, 2018, the Company had \$343.1 million of gross unrecognized tax benefits, of which \$310.0 million would reduce our valuation allowance, if recognized. The remaining \$33.1 million would impact the effective tax rate, if recognized. It is possible that the amount of unrecognized tax benefits will change in the next twelve months; however, an estimate of the range of the possible change cannot be made at this time.

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

The U.S. Tax Cuts and Jobs Act (the "Tax Act") was signed into law on December 22, 2017, and provides broad and significant changes to the U.S. corporate income tax regime. As of July 31, 2018, Autodesk has not completed its determination of the accounting implications of the Tax Act. The provisional amounts recorded are based on Autodesk's current interpretation and understanding of the Tax Act and may change as the Company receives additional clarification and implementation guidance and finalizes the analysis of all impacts and positions with regard to the Tax Act. As of July 31, 2018, there have been no material adjustments to provision amounts as were determined at January 31, 2018. As additional regulatory guidance is issued, Autodesk will continue to collect and analyze necessary data and may adjust provisional amounts previously recorded in the period in which the adjustments are made. Pursuant to Staff Accounting Bulletin 118 ("SAB 118"), Autodesk will complete the accounting for the tax effects of all provisions of the Tax Act within the required measurement period not to extend beyond one year from the enactment date.

## **8. *Acquisitions***

During the six months ended July 31, 2018, Autodesk completed one business combination as described below. The results of operations for the following acquisition is included in the accompanying Condensed Consolidated Statement of Operations. Pro forma results of operations have not been presented because the effects of the following acquisition were not material to Autodesk's Condensed Consolidated Financial Statements. The adoption of ASU 2017-01 in the first quarter of fiscal 2019 did not impact the accounting for this acquisition.

On July 3, 2018, Autodesk acquired Assemble Systems, Inc. ("Assemble"). Assemble is a provider of software solutions that enable construction professionals to influence, query and connect BIM data to key workflows across bid management, estimating, scheduling, site management and finance. Over time, Assemble's software solution will be integrated with Autodesk's BIM 360 project management platform.

The acquisition-date fair value of the consideration transferred totaled \$93.6 million, which consisted of \$38.2 million of cash, \$44.8 million of Autodesk common stock (340,769 shares) and ascribed a value of \$10.6 million to Autodesk's existing equity interest in Assemble.

Prior to the acquisition date, Autodesk accounted for its approximate 14% equity interest in Assemble as a cost-method investment. The acquisition-date fair value of Autodesk's existing equity interest was \$10.6 million and is included in the measurement of the consideration transferred. Autodesk recognized a gain of \$4.6 million as a result of remeasuring its prior equity interest in Assemble held before the business combination using a control premium to calculate a discount for lack of control. The gain is included in "Interest and other expense, net" in the Condensed Consolidated Statements of Operations.

For the Assemble acquisition that was accounted for as business combination, 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 acquisition. There is no amount of goodwill that is deductible for U.S. income tax purposes.

The following table summarizes the fair value of the assets acquired and liabilities assumed by major class for the Assemble business combination that was completed during the six months ended July 31, 2018:

|  | <b>July<br/>31,<br/>2018</b> |
|--|------------------------------|
| Developed technologies   | \$4.4                        |
| Customer relationships and other non-current intangible assets | 12.0                         |
| Trade name   | 2.8                          |
| Goodwill   | 71.9                         |
| Deferred revenue (current and non-current)                     | (1.7 )                       |
| Net tangible assets  | 4.2                          |
| Total  | \$93.6                       |

For the Assemble business combination, 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.

### **9. 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:

|   | <b>July 31,<br/>2018</b> | <b>January 31,<br/>2018</b> |
|---|--------------------------|-----------------------------|
| Developed technologies, at cost   | \$580.0                  | \$ 578.5                    |
| Customer relationships, trade names, patents, and user lists, at cost (1) | 381.7                    | 372.5                       |
| Other intangible assets, at cost (2)                                      | 961.7                    | 951.0                       |
| Less: Accumulated amortization  | (903.8 )                 | (895.8 )                    |
| Other intangible assets, net  | \$57.9                   | \$ 55.2                     |

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

(2) Includes the effects of foreign currency translation.

### **10. Goodwill**

Goodwill consists of the excess of consideration transferred over the fair value of net assets acquired in business combinations. The following table summarizes the changes in the carrying amount of goodwill for the six months ended July 31, 2018:

|  |           |
|--|-----------|
| Balance as of January 31, 2018                             | \$1,769.4 |
| Less: accumulated impairment losses as of January 31, 2018 | (149.2 )  |
| Net balance as of January 31, 2018                         | 1,620.2   |
| Additions arising from acquisitions during the period      | 71.9      |
| Effect of foreign currency translation                     | (33.4 )   |



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Balance as of July 31, 2018

\$ 1,658.7

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

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

The quantitative impairment test is necessary when either Autodesk does not use the optional assessment or, as a result of the optional assessment, it is not more likely than not that the fair value of the reporting unit is greater than its carrying value. In situations in which an entity's reporting unit is publicly traded, the fair value of the Company may be approximated by its market capitalization, in performing the quantitative impairment test.

Goodwill impairment exists when the estimated fair value of goodwill is less than its carrying value. If impairment exists, the carrying value of the goodwill is reduced to fair value through an impairment charge recorded in our Condensed Consolidated Statements of Operations. The process of evaluating the potential impairment of goodwill is subjective and requires significant judgment at many points during the analysis. The value of Autodesk’s goodwill could also be impacted by future adverse changes such as: (i) declines in Autodesk’s actual financial results, (ii) a sustained decline in Autodesk’s market capitalization, (iii) a significant slowdown in the worldwide economy or the industries Autodesk serves, or (iv) changes in Autodesk’s business strategy.

There was no goodwill impairment during the three and six months ended July 31, 2018.

## ***11. Deferred Compensation***

At July 31, 2018, Autodesk had marketable securities totaling \$402.5 million, of which \$62.0 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 \$62.0 million at July 31, 2018, of which \$3.0 million was classified as current and \$59.0 million was classified as non-current liabilities. The total related deferred compensation liability at January 31, 2018, was \$59.0 million, of which \$3.4 million was classified as current and \$55.6 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.

### ***Costs to obtain a contract with a customer***

Sales commissions earned by our internal sales personnel and our reseller partners are considered incremental and recoverable costs of obtaining a contract with a customer. The commission costs are capitalized and included in prepaid expenses and other current assets on our Condensed Consolidated Balance Sheets. The deferred costs are then amortized over the period of benefit. Autodesk determined that sales commissions earned by internal sales personnel that are related to contract renewals are commensurate with sales commissions earned on the initial contracts, and we determined the period of benefit to be the term of the respective customer contract. Commissions paid to our reseller partners that are related to contract renewals are not commensurate with commissions earned on the initial contract, and we determined the estimated period of benefit by taking into consideration customer retention data, customer contracts, our technology and other factors. Deferred costs are periodically reviewed for impairment. Amortization expense is included in sales and marketing expenses in the Condensed Consolidated Statements of Operations.

The ending balance of assets recognized from costs to obtain a contract with a customer was \$82.5 million as of July 31, 2018. Amortization expense related to assets recognized from costs to obtain a contract with a customer was \$26.9 million and \$53.1 million during the three and six months ended July 31, 2018, respectively. Autodesk did not recognize any contract cost impairment losses during the six months ended July 31, 2018.

**12. Computer Equipment, Software, Furniture and Leasehold Improvements, Net**

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

|   | July 31,<br>2018 | January 31,<br>2018 |
|---|------------------|---------------------|
| Computer hardware, at cost  | \$ 213.9         | \$ 217.1            |
| Computer software, at cost  | 74.6             | 72.6                |
| Leasehold improvements, land and buildings, at cost                               | 235.9            | 228.9               |
| Furniture and equipment, at cost  | 64.0             | 63.4                |
|   | 588.4            | 582.0               |
| Less: Accumulated depreciation  | (441.6 )         | (437.0 )            |
| Computer software, hardware, leasehold improvements, furniture and equipment, net | \$ 146.8         | \$ 145.0            |

**13. Borrowing Arrangements**

In June 2017, Autodesk issued \$500.0 million aggregate principal amount of 3.5% notes due June 15, 2027 (collectively, the “2017 Notes”). Net of a discount of \$3.1 million and issuance costs of \$4.9 million, Autodesk received net proceeds of \$492.0 million from issuance of the 2017 Notes. Both the discount and issuance costs are being amortized to interest expense over the term of the 2017 Notes using the effective interest method. The proceeds of the 2017 Notes have been used for the repayment of \$400.0 million of debt due December 15, 2017, and the remainder is available for general corporate purposes. Autodesk may redeem the 2017 Notes at any time, subject to a make whole premium. In addition, upon the occurrence of certain change of control triggering events, Autodesk may be required to repurchase the 2017 Notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest to the date of repurchase. The 2017 Notes contain restrictive covenants that limit Autodesk's ability to create certain liens, to enter into certain sale and leaseback transactions and to consolidate or merge with, or convey, transfer or lease all or substantially all of its assets, subject to important qualifications and exceptions. Based on quoted market prices, the fair value of the 2017 Notes was approximately \$467.5 million as of July 31, 2018.

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 \$754.1 million as of July 31, 2018.

In December 2012, Autodesk issued \$400.0 million aggregate principal amount of 1.95% notes due December 15, 2017 (“\$400.0 million 2012 Notes”) and \$350.0 million aggregate principal amount of 3.6% notes due December 15, 2022 (“\$350.0 million 2012 Notes” and collectively with the \$400.0 million 2012 Notes, the “2012 Notes”). Autodesk received net proceeds of \$739.3 million from issuance of the 2012 Notes, net of a discount of \$4.5 million and issuance costs of \$6.1 million. Both the discount and issuance costs are being amortized to interest expense over the

respective terms of the 2012 Notes using the effective interest method. The proceeds of the 2012 Notes are available for general corporate purposes. On July 27, 2017, Autodesk redeemed in full the \$400.0 million 2012 Notes. The redemption was completed pursuant to the optional redemption provisions of the first supplemental indenture dated December 13, 2012. To redeem the notes, Autodesk used the proceeds of the 2017 Notes to pay a redemption price of approximately \$400.9 million, plus accrued and unpaid interest. Total cash repayment was \$401.8 million. The Company did not incur any additional early termination penalties in connection with such redemption. Based on the quoted market price, the fair value of the \$350.0 million 2012 Notes was approximately \$347.8 million as of July 31, 2018.

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 our assets, and restrict the Company's ability to incur additional indebtedness or make dispositions of assets if we fail to

maintain the financial covenants. As the result of a forecasted inability to comply with the credit agreement's minimum interest coverage ratio in the second quarter of fiscal 2019, the Company renegotiated the credit agreement financial covenants in June 2018. The amended financial covenants now consist of a maximum debt to total cash ratio, a fixed charge coverage ratio extending through October 31, 2018, and after October 31, 2018, a minimum interest coverage ratio.

The line of credit is syndicated with various financial institutions, including Citibank, N.A., an affiliate of Citigroup, which is one of the lead lenders and an agent. The maturity date on the line of credit is May 2020. At July 31, 2018, Autodesk was in compliance with the credit facility's covenants and had no outstanding borrowings on this line of credit.

#### ***14. Restructuring and other exit costs, net***

During the fourth quarter of fiscal 2018, the Board of Directors approved a world-wide restructuring plan ("Fiscal 2018 Plan") to support the Company's strategic priorities of completing the subscription transition, digitizing the Company, and re-imagining manufacturing, construction, and production. Through the restructuring, Autodesk seeks to reduce its investments in areas not aligned with its strategic priorities, including in areas related to research and development and go-to-market activities. At the same time, Autodesk plans to further invest in strategic priority areas related to digital infrastructure, customer success, and construction. By re-balancing resources to better align with the Company's strategic priorities, Autodesk is positioning itself to meet its long-term goals. This world-wide restructuring plan includes a reduction in force that will result in the termination of approximately 13% of the Company's workforce, or approximately 1,150 employees, and the consolidation of certain leased facilities. The Company expects to substantially complete the reduction in force and the facilities consolidation by the end of fiscal 2019.

The following table sets forth the restructuring charges and other lease termination exit costs during the six months ended July 31, 2018:

|  | Balances,<br>January 31,<br>2018 | Additions | Payments   | Adjustments<br>(1) | Balances,<br>July 31,<br>2018 |
|--|----------------------------------|-----------|------------|--------------------|-------------------------------|
| <b><i>Fiscal 2018 Plan</i></b>         |                                  |           |            |                    |                               |
| Employee termination costs             | \$ 53.0                          | \$ 33.5   | \$ (66.3 ) | \$ (0.7 )          | \$ 19.5                       |
| Lease termination and other exit costs | 2.5                              | 2.8       | (3.7 )     | 0.4                | 2.0                           |
| Total                                  | \$ 55.5                          | \$ 36.3   | \$ (70.0 ) | \$ (0.3 )          | \$ 21.5                       |
| Current portion (2)                    | \$ 55.5                          |           |            |                    | \$ 21.5                       |
| Total                                  | \$ 55.5                          |           |            |                    | \$ 21.5                       |

(1) Adjustments primarily relate to the impact of foreign exchange rate changes and certain write offs related to fixed assets.

(2) The current portion of the reserve are recorded in the Condensed Consolidated Balance Sheets under "Other accrued liabilities." There was no non-current portion as of July 31, 2018.

## ***15. Commitments and Contingencies***

### *Guarantees and Indemnifications*

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

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

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

### *Legal Proceedings*

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

## ***16. 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, 2018, Autodesk repurchased and retired 1.1 million shares and 1.3 million shares at an average repurchase price of \$131.52 and \$128.92 per share, respectively. Common

stock and additional paid-in capital and accumulated deficit were reduced by \$77.3 million and \$69.4 million, respectively, during the three months ended July 31, 2018. Common stock and additional paid-in capital and accumulated deficit were reduced by \$93.7 million and \$74.0 million, respectively, during the six months ended July 31, 2018.

At July 31, 2018, 18.4 million shares remained available for repurchase under the repurchase program approved by the Board of Directors. During the six months ended July 31, 2018, 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.



**17. Accumulated Other Comprehensive Loss**

Accumulated other comprehensive loss, net of taxes, consisted of the following at July 31, 2018:

|   | Net<br>Unrealized<br>Gains<br>(Losses) on<br>Derivative<br>Instruments | Net Unrealized<br>Gains (Losses) on<br>Available-for-Sale<br>Debt Securities | Defined<br>Benefit<br>Pension<br>Components | Foreign<br>Currency<br>Translation<br>Adjustments | Total       |
|---|--|--|---|---|-------------|
| Balances, January 31, 2018  | \$ (16.6 )   | \$ 1.3   | \$ (29.3 )                                  | \$ (79.2 )  | \$ (123.8 ) |
| Other comprehensive income (loss) before reclassifications            | 15.1   | (0.7 )   | 11.3  | (54.5 )   | (28.8 )     |
| Pre-tax losses reclassified from accumulated other comprehensive loss | 4.3  | —  | 0.2   | —   | 4.5         |
| Tax effects   | (1.8 )   | —  | (1.5 )                                      | 0.5   | (2.8 )      |
| Net current period other comprehensive income (loss)                  | 17.6   | (0.7 )   | 10.0  | (54.0 )   | (27.1 )     |
| Balances, July 31, 2018   | \$ 1.0   | \$ 0.6   | \$ (19.3 )                                  | \$ (133.2 )                                       | \$ (150.9 ) |

Reclassifications related to gains and losses on available-for-sale debt securities are included in "Interest and other income (expense), net." Refer to Note 5, "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, 2018.

**18. 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<br>Ended July 31,<br>2018 |            | Six Months Ended<br>July 31,<br>2017 |            |
|--|--|------------|--------------------------------------|------------|
| Numerator:   |  |            |                                      |            |
| Net loss   | \$(39.4 )                              | \$(144.0 ) | \$(121.8 )                           | \$(273.6 ) |
| Denominator:   |  |            |                                      |            |
| Denominator for basic net loss per share—weighted average shares | 219.0                                  | 219.5      | 218.8                                | 219.7      |
| Effect of dilutive securities (1)                                | —                                      | —          | —                                    | —          |
| Denominator for dilutive net loss per share                      | 219.0                                  | 219.5      | 218.8                                | 219.7      |
| Basic net loss per share   | \$(0.18 )                              | \$(0.66 )  | \$(0.56 )                            | \$(1.25 )  |
| Diluted net loss per share                                       | \$(0.18 )                              | \$(0.66 )  | \$(0.56 )                            | \$(1.25 )  |

The effect of dilutive securities of 3.2 million and 4.8 million shares in the three months ended July 31, 2018 and 2017, 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 (1) during those periods. The effect of dilutive securities of 3.3 million and 4.7 million shares in the six months ended July 31, 2018 and 2017, respectively, has 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, 2018 and 2017, zero potentially anti-dilutive shares were excluded from the computation of diluted net loss per share, respectively. For the six months ended July 31, 2018 and 2017, zero and 0.1 million potentially anti-dilutive shares were excluded from the computation of diluted net loss per share, respectively.

***19. Segments***

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

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

*The discussion in our MD&A and elsewhere in this Form 10-Q contains trend analyses and other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are any statements that look to future events and consist of, among other things, our business strategies, including those discussed in "Strategy" and "Overview of the Three and Six Months Ended July 31, 2018 and 2017" below, future net revenue, operating expenses, recurring revenue, annualized recurring revenue, annualized revenue per subscription, other future financial results (by product type and geography) and subscriptions, the effectiveness of our restructuring efforts, the effectiveness of our efforts to successfully manage transitions to new business models and markets, our expectations regarding the continued transition of our business model, expectations for our maintenance plan and subscription plan subscriptions, our ability to increase our subscription base, expected market trends, including the growth of cloud and mobile computing, the effect of unemployment, the availability of credit, our expectations for our restructuring, the effects of global economic conditions, the effects of revenue recognition, the effects of recently issued accounting standards, 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 business and sales initiatives, the impact of acquisitions, the impact of economic volatility and geopolitical activities in certain countries, particularly emerging economy countries, the timing and amount of purchases under our stock buy-back plan, and the effects of potential non-cash charges on our financial results and the resulting effect on our financial results. In addition, forward-looking statements also consist of statements involving expectations regarding product capability and acceptance, remediation to our controls environment, statements regarding our liquidity and short-term and long-term cash requirements, as well as statements involving trend analyses and statements including such words as "may," "believe," "could," "anticipate," "would," "might," "plan," "expect," and similar expressions or the negative of these terms or other comparable terminology. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q and are subject to business and economic risks. As such, our actual results could differ materially from those set forth in the forward-looking statements as a result of a number of factors, including those set forth below in Part II, Item 1A, "Risk Factors," and in our other reports filed with the U.S. Securities and Exchange Commission. We assume no obligation to update the forward-looking statements to reflect events that occur or circumstances that exist after the date on which they were made, except as required by law.*

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

### Strategy

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

Autodesk was founded during the platform transition from mainframe computers and engineering workstations to personal computers. We developed and sustained a compelling value proposition based upon desktop software for the personal computer. Just as the transition from mainframes to personal computers transformed the industry over 30 years ago, we believe our industry is undergoing a similar transition from the personal computer to cloud, mobile, and social computing. To address this transition, we have accelerated our move to the cloud and mobile devices and are offering more flexible licensing. Our product subscriptions currently represent a hybrid of desktop software and cloud functionality, which provides a device-independent, collaborative design workflow for designers and their stakeholders. Our SaaS offerings, for example, BIM 360, Shotgun, Fusion, and AutoCAD 360 Pro, provide tools,

including mobile and social capabilities, to streamline design, collaboration, building and manufacturing and data management processes. We believe that customer adoption of these new offerings will continue to grow as customers across a range of industries begin to take advantage of the scalable computing power and flexibility provided through these new services.

Our strategy is to build an enduring relationship with our customers, delivering valuable automation and insight to their design and make processes. Industry collections provide our customers with increased access to a broader selection of Autodesk products and services that exceeds those previously available in suites - simplifying the customers ability to get access to a complete set of tools for their industry. We now offer subscriptions for individual products and industry collections, flexible enterprise business agreements ("EBAs"), and cloud service offerings (collectively referred to as "subscription plan"). These subscription plan offerings are designed to give our customers more flexibility with how they use our products and service offerings and to attract a broader range of customers, such as project-based users and small businesses.

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

As we progress through the current stage of the business model transition, annualized recurring revenue ("ARR"), growth of billings, and total subscriptions better reflect business momentum. To analyze progress, we disaggregate our growth between the original maintenance model ("maintenance plan") and the subscription plan model. Maintenance plan subscriptions peaked in the fourth quarter of our fiscal 2016 as we discontinued selling new maintenance plan subscriptions in fiscal 2017, and we expect them to decline slowly over time as maintenance plan customers continue to convert to our subscription plans.

We sell our products and services globally, through a combination of indirect and direct channels. Our indirect channels include value added resellers, direct market resellers, distributors, computer manufacturers, and other software developers. Our direct channels include internal sales resources dedicated to selling in our largest accounts, our highly specialized products, and business transacted through our online Autodesk branded store. See Note 3, "Revenue Recognition" in the Notes to the unaudited Condensed Consolidated Financial Statements for further detail on the results of our indirect and direct channel sales for the three and six months ended July 31, 2018 and 2017.

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

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

In addition to the competitive advantages afforded by our technology, our large global network of distributors, resellers, third-party developers, customers, educational institutions, educators, and students is a key competitive advantage which has been cultivated over an extensive period of time. This network of partners and relationships provides us with a broad and deep reach into volume markets around the world. Our distributor and reseller network is extensive and provides our customers with the resources to purchase, deploy, learn, and support our products quickly and easily. We have a significant number of registered third-party developers who create products that work well with our products and extend them for a variety of specialized applications.

Autodesk is committed to helping fuel a lifelong passion for making with students of all ages. We offer free educational licenses of Autodesk software worldwide to students, educators, and accredited educational institutions. We inspire and support beginners with Tinkercad, a simple online 3D design and 3D printing tool. Through Autodesk Design Academy, we provide secondary and postsecondary school markets hundreds of

standards-aligned class projects to support design-based disciplines in Science, Technology, Engineering, Digital Arts, and Math (STEAM) while using Autodesk's professional-grade 3D design, engineering and entertainment software used in industry. We also have made Autodesk Design Academy curricula available on Udemy and Coursera. Our intention is to make Autodesk software ubiquitous and the design and making software of choice for those poised to become the next generation of professional users.

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

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

## Critical Accounting Policies and Estimates

Our Condensed Consolidated Financial Statements are prepared in conformity with U.S. generally accepted accounting principles ("GAAP"). In preparing our Condensed Consolidated Financial Statements, we make assumptions, judgments and estimates that can have a significant impact on amounts reported in our Condensed Consolidated Financial Statements. We base our assumptions, judgments and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. We regularly reevaluate our assumptions, judgments and estimates. Our significant accounting policies are described in Note 1, "Business and Summary of Significant Accounting Policies," in the Notes to Consolidated Financial Statements in our Form 10-K for the fiscal year ended January 31, 2018. In addition, we highlighted those policies that involve a higher degree of judgment and complexity with further discussion in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Form 10-K. There have been no material changes to our critical accounting policies and estimates during the three months ended July 31, 2018 as compared to those disclosed in our Form 10-K for the fiscal year ended January 31, 2018, except for the adoption of Accounting Standard Codification ("ASC") Topics 606 and 340-40. For changes made to our revenue recognition policy as a result of the adoption of ASC Topics 606 and 340-40, refer to Note 3, "Revenue Recognition" and Note 11, "Deferred Compensation," in the Notes to the unaudited Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q. 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, 2018 and 2017

• Total net revenue was \$611.7 million and \$1.17 billion for the three and six months ended July 31, 2018, respectively, an increase of 22% and 19% compared to the same periods in the prior year.

• Total ARR was \$2.35 billion, an increase of 28% compared to the same period in the prior year.

• Core business ARR, which represents ARR from the combination of maintenance, product, and enterprise business agreement (EBA) subscriptions, was \$2.27 billion and increased 29% compared to the second quarter last year

• Total subscriptions increased 0.1 million from the first quarter of fiscal 2019 to 3.9 million.

We adopted ASC Topic 606 and ASC Topic 340-40 during the first quarter of fiscal 2019. See discussion below for additional information regarding certain metrics that were affected by the new standards under the heading "Impact of New Revenue Accounting Standard."

### *Revenue Analysis*

Net revenue increased during the three and six months ended July 31, 2018, as compared to the same periods in the prior fiscal year, primarily due to the respective 114% and 109% increase in subscription revenue, partially offset by a 36% and 34% decrease in maintenance revenue as a result of the program to migrate customers from a maintenance plan to a subscription plan.

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 35% of Autodesk’s total net revenue for both the three and six months ended July 31, 2018 and 31% and 30% for the three and six months ended July 31, 2017, respectively. Our customers through Tech Data are the resellers and end users who purchase our software licenses and services. Should any of our agreements with Tech Data be terminated for any reason, we believe the resellers and end users who currently purchase our products through Tech Data would be able to continue to do so under substantially the same terms from one of our many other distributors without substantial disruption to our revenue. Consequently, we believe our business is not substantially dependent on Tech Data.

*Recurring Revenue and Subscriptions*

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

The following table outlines our recurring revenue metric for the three and six months ended July 31, 2018 and 2017:

|  | <b>Three<br/>Months<br/>Ended July<br/>31, 2018</b> | <b>Change compared to<br/>prior fiscal year</b> |          | <b>Three<br/>Months<br/>Ended<br/>July 31,<br/>2017</b> |
|--|---|---|----------|---|
| <i>(In millions, except percentage data)</i> |   | <b>\$</b>                                       | <b>%</b> |   |
| Recurring Revenue (1)                        | \$586.8   | \$ 129.4  | 28 %     | \$457.4   |
| As a percentage of net revenue               | 96 %  | N/A   | N/A      | 91 %  |

  

|                                | <b>Six Months<br/>Ended July<br/>31, 2018</b> | <b>Change compared to<br/>prior fiscal year</b> |          | <b>Six<br/>Months<br/>Ended<br/>July 31,<br/>2017</b> |
|--------------------------------|---|---|----------|---|
|                                |   | <b>\$</b>                                       | <b>%</b> |   |
| Recurring Revenue (1)          | \$1,118.4                                     | \$ 225.1  | 25 %     | \$893.3   |
| As a percentage of net revenue | 95 %  | N/A   | N/A      | 90 %  |

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

The following table outlines our ARR, subscriptions and ARPS metrics as of July 31, 2018 and January 31, 2018. For purposes of clarifications, the ARR and ARPS balances in the following table as of July 31, 2018 are calculated under ASC Topic 606. For comparison of ARR and ARPS as of July 31, 2018 under the old revenue standard, ASC 605, refer to the table under the title "Impact of New Revenue Accounting Standard" further below.

|  | Balances,<br>July 31,<br>2018 | Change<br>compared to<br>prior quarter<br>end |        |  | Balances,<br>April 30,<br>2018 | Balances,<br>July 31,<br>2018 | Change compared to<br>prior fiscal year end |        |  | Balances,<br>January<br>31, 2018 |
|--|-------------------------------|---|--------|--|--------------------------------|-------------------------------|---|--------|--|----------------------------------|
|  |                               | \$  | %      |  |                                |                               | \$  | %      |  |                                  |
| <b>ARR</b> (in millions)                             |                               |   |        |  |                                |                               |   |        |  |                                  |
| Subscription plan ARR                                | \$1,681.8                     | \$280.3                                       | 20 %   |  | \$1,401.5                      | \$1,681.8                     | \$506.8                                     | 43 %   |  | \$1,175.0                        |
| Maintenance plan ARR                                 | 665.6                         | (59.3 )                                       | (8 )%  |  | 724.9                          | 665.6                         | (213.5 )                                    | (24 )% |  | 879.1                            |
| Total ARR (1)  | \$2,347.4                     | \$221.0                                       | 10 %   |  | \$2,126.4                      | \$2,347.4                     | \$293.3                                     | 14 %   |  | \$2,054.1                        |
| <b>Number of Subscriptions</b> (in thousands)        |                               |   |        |  |                                |                               |   |        |  |                                  |
| Subscription plan                                    | \$2,864.4                     | \$290.1                                       | 11 %   |  | \$2,574.3                      | \$2,864.4                     | \$597.6                                     | 26 %   |  | \$2,266.8                        |
| Maintenance plan                                     | 1,071.1                       | (171.5 )                                      | (14 )% |  | 1,242.6                        | 1,071.1                       | (377.8 )                                    | (26 )% |  | 1,448.9                          |
| Total subscriptions                                  | \$3,935.5                     | \$118.6                                       | 3 %    |  | \$3,816.9                      | \$3,935.5                     | \$219.8                                     | 6 %    |  | \$3,715.7                        |
| <b>ARPS</b> (ARR divided by number of Subscriptions) |                               |   |        |  |                                |                               |   |        |  |                                  |
| Subscription plan ARPS                               | \$587                         | \$43  | 8 %    |  | \$544                          | \$587                         | \$69  | 13 %   |  | \$518                            |
| Maintenance plan ARPS                                | 621                           | 38  | 7 %    |  | 583                            | 621                           | 14  | 2 %    |  | 607                              |
| Total ARPS (2)                                       | \$596                         | \$39  | 7 %    |  | \$557                          | \$596                         | \$43  | 8 %    |  | \$553                            |

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

There are small variances between ARR and total subscriptions due in part to the inherent limitation with collecting all subscriptions information. For example, Buzzsaw and Constructware are included with ARR but not in total subscriptions due to these inherent limitations.

We do not view these variances as meaningful to amounts or quarterly comparisons presented here for ARPS.

Total ARR increased 10% as of July 31, 2018 as compared to the three months ended April 30, 2018, and 14% as compared to the end of fiscal 2018, primarily due to a 20% and 43% increase, in the respective periods, in subscription plan ARR driven by the maintenance-to-subscription ("M2S") program and growth in new product subscriptions. The increase was partially offset by an 8% and 24% decrease, in the respective periods, in maintenance plan ARR driven by the migration from maintenance plan subscriptions to subscription plan subscriptions. Under ASC 605, total ARR increased 7% as of July 31, 2018 as compared to the three months ended April 30, 2018, and 13%, as compared to the end of fiscal 2018 primarily due to a 42% increase in subscription plan ARR, partially offset by a 25% decrease in maintenance plan ARR.

Subscription plan subscriptions increased 11% or approximately 0.3 million as compared to the previous quarter and 26% or approximately 0.6 million as compared to the end of fiscal 2018, driven by growth in all subscription plan types, led by new product subscriptions. Subscription plan subscriptions benefited from approximately 0.1 million and 0.3 million maintenance subscribers that were converted to product subscription under the M2S program during the three and six months ended July 31, 2018, respectively.

Maintenance plan subscriptions decreased 14% or approximately 0.2 million from the previous quarter and 26% or approximately 0.4 million from the end of fiscal 2018, primarily as a result of the strong performance of the M2S program in which approximately 0.1 million and 0.3 million maintenance plan subscriptions converted to product subscription during the three and six months ended July 31, 2018, respectively. The net decrease is expected and we

expect to see ongoing declines in maintenance plan subscriptions going forward as part of the business model transition. The rate of decline will vary based on the number of subscriptions subject to renewal, the renewal rate, and our ability to incentivize customers to switch over to EBAs or product subscriptions.

When adjusted for the impact of the M2S program, subscription plan ARPS and maintenance plan ARPS would have been \$595 and \$598, respectively.

ARPS as of July 31, 2018 was \$596 under ASC 606, an increase of 7% compared to the previous quarter primarily due to an increase in subscription plan ARPS. The increase in subscription plan ARPS was driven by growth in all subscription plan types, led by product subscription ARPS. Under ASC 605, ARPS was \$591.

ARPS increased 8% compared to the end of fiscal 2018 due to an increase in subscription plan ARPS primarily driven an increase in product subscription ARPS as a result of the business model transition and other pricing changes. ARPS was partially offset by a decreases in both EBAs and cloud service offerings ARPS.

Our ARPS is currently, and will continue to be, affected by various factors including the M2S program, geography and product mix, promotions, sales linearity within a quarter, pricing changes, and foreign currency. We expect to see ARPS fluctuate up or down on a quarterly basis. As we progress on our business model transition, we expect all of the impacts of these factors to stabilize.

*Impact of New Revenue Accounting Standard*

We adopted Accounting Standard Update No. 2014-09, which codified new revenue recognition guidance under ASC Topic 606. Previously, we followed revenue accounting guidance under ASC Topic 605. The table below shows what some of our key metrics would have been under ASC Topic 605 (see Note 2, "Recently Issued Accounting Standards" for more details on our adoption and impacts):

|  | <b>Three Months Ended<br/>July 31, 2018</b> |                | <b>Three<br/>Months<br/>Ended<br/>July 31,<br/>2017</b> |
|--|---|----------------|---|
| <i>(in millions except ARPS)</i>                   | <b>ASC 606</b>                              | <b>ASC 605</b> | <b>ASC 605</b>  |
| <b>Key Income Statement Metrics</b>                |   |                |   |
| Subscription revenue                               | \$420.6                                     | \$416.0        | \$196.1   |
| Maintenance revenue                                | 166.4                                       | 165.3          | 261.8   |
| Other revenue                                      | 24.7  | 29.2           | 43.9  |
| Total net revenue                                  | 611.7                                       | 610.5          | 501.8   |
| Gross profit                                       | 541.9                                       | 540.3          | 427.2   |
| Spend  | 636.4                                       | 626.0          | 609.4   |
| Net loss   | \$(39.4 )                                   | \$(27.1 )      | \$(144.0 )  |
| Basic and diluted net loss per share               | \$(0.18 )                                   | \$(0.12 )      | \$(0.66 )   |
| <b>ARR</b>   |   |                |   |
| Subscription plan ARR                              | \$1,681.8                                   | \$1,663.1      | \$783.7   |
| Maintenance plan ARR                               | 665.6                                       | 661.4          | 1,046.0   |
| Total ARR  | \$2,347.4                                   | \$2,324.5      | \$1,829.7   |
| <b>ARPS</b>  |   |                |   |
| Subscription plan ARPS                             | \$587                                       | \$581          | \$493   |
| Maintenance plan ARPS                              | 621   | 617            | 564   |
| Total ARPS   | \$596                                       | \$591          | \$531   |
| <b>Net Revenue by Product Family (1)</b>           |   |                |   |
| Architecture, Engineering and Construction ("AEC") | \$243.1                                     | \$240.4        | \$189.6   |
| AutoCAD and AutoCAD LT ("ACAD")                    | 176.6                                       | 175.2          | 135.6   |
| Manufacturing ("MFG")                              | 146.1                                       | 147.4          | 132.3   |
| Media and Entertainment ("M&E")                    | 41.7  | 43.1           | 38.0  |
| Other  | 4.2   | 4.4            | 6.3   |
| Total Net Revenue                                  | \$611.7                                     | \$610.5        | \$501.8   |
| <b>Net Revenue by Geography</b>                    |   |                |   |
| Americas   | \$247.5                                     | \$248.9        | \$214.0   |
| Europe, Middle East and Africa ("EMEA")            | 248.3                                       | 246.2          | 199.3   |
| Asia Pacific ("APAC")                              | 115.9                                       | 115.4          | 88.5  |
| Total Net Revenue                                  | \$611.7                                     | \$610.5        | \$501.8   |

(1) Due to changes in the go-to-market offerings of our AutoCAD product subscription, prior period balances have been adjusted to conform to current period presentation.

The adoption of ASC Topic 606 required a change to our reporting around deferred revenue. See discussions below under the heading "Unbilled Deferred Revenue."

*Foreign Currency Analysis*

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

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

| Three Months Ended July 31, 2018 |             |             |             |             | Six Months Ended July 31, 2018 |             |             |             |             |
|----------------------------------|-------------|-------------|-------------|-------------|--------------------------------|-------------|-------------|-------------|-------------|
|                                  | Constant    | Currency    | Percent     | Change      |                                | Constant    | Currency    | Percent     | Change      |
|                                  | change      | change      | change      | change      |                                | change      | change      | change      | change      |
|                                  | compared to | compared to | compared to | compared to |                                | compared to | compared to | compared to | compared to |
|                                  | prior       | prior       | prior       | prior       |                                | prior       | prior       | prior       | prior       |
|                                  | fiscal year | fiscal year | fiscal year | fiscal year |                                | fiscal year | fiscal year | fiscal year | fiscal year |
|                                  | (1)         | (2)         | (3)         | (4)         |                                | (1)         | (2)         | (3)         | (4)         |
| Revenue                          | 22%         | 21%         |             | Positive    | 19%                            | 18%         |             | Positive    |             |
| Spend                            | 4%          | 3%          |             | Negative    | 3%                             | 2%          |             | Negative    |             |
| (1)                              |             |             |             |             |                                |             |             |             |             |

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

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

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

### Unbilled Deferred Revenue

The adoption of ASC Topic 606 required a change to the definition of unbilled deferred revenue and new qualitative and quantitative disclosures around our performance obligations. Unbilled deferred revenue represents contractually stated or committed orders under early renewal and multi-year billing plans for subscription, services, license and maintenance for which the associated deferred revenue has not been recognized. Under ASC Topic 606, unbilled deferred revenue is not included as a receivable or deferred revenue on our Condensed Consolidated Balance Sheet. See Note 3, "Revenue Recognition" for more details on Autodesk's performance obligations.

|                           | July 31, 2018 |            | January 31, 2018 |
|---------------------------|---------------|------------|------------------|
| (in millions)             | ASC 606       | ASC 605    | ASC 605          |
| Deferred revenue          | \$ 1,799.5    | \$ 1,923.9 | \$ 1,955.1       |
| Unbilled deferred revenue | 405.8         | 352.1      | 326.4            |
| Total deferred revenue    | \$ 2,205.3    | \$ 2,276.0 | \$ 2,281.5       |

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

### Balance Sheet and Cash Flow Items

At July 31, 2018, we had \$1.3 billion in cash and marketable securities. Our cash flow from operations increased 197% to \$26.4 million for the six months ended July 31, 2018, compared to \$(27.3) million for the six months ended July 31, 2017. We repurchased 1.3 million shares of our common stock for \$167.7 million during the six months ended July 31, 2018. Comparatively, we repurchased 3.4 million shares of our common stock for \$310.6 million during the six months ended July 31, 2017. Further discussion regarding the balance sheet and cash flow activities are discussed below under the heading "Liquidity and Capital Resources."





## Results of Operations

The revenue and spend balances included in the tables below during the three months ended July 31, 2018 are calculated under ASC Topic 606. For comparison of subscription revenue, maintenance revenue, other revenue and total spend during the three months ended July 31, 2018 under ASC Topic 605, refer to the table within Item 2, "Overview" under the title "Impact of New Revenue Accounting Standard."

### Net Revenue

#### *Income Statement Presentation*

Subscription revenue consists of our term-based product subscriptions, cloud service offerings, and flexible enterprise business arrangements. Revenue from these arrangements 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.

Maintenance revenue consists of renewal fees for existing maintenance plan agreements that were initially purchased with a perpetual software license. Under our maintenance plan, customers are eligible to receive unspecified upgrades, when and if available, and technical support. We recognize maintenance revenue ratably over the term of the agreements, which is generally one year.

Other revenue consists of revenue from consulting, training and other services, and is recognized over time as the services are performed. Other revenue also includes software license revenue from the sale of products which do not incorporate substantial cloud services and is recognized up front.

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|  | Three Months Ended July 31, 2018 | Change compared to prior fiscal year |        | Three Months Ended July 31, 2017 | Management Comments  |
|--|----------------------------------|--------------------------------------|--------|----------------------------------|--|
| (in millions)                              | \$                               |                                      | %      |                                  |  |
| Net Revenue:                               |                                  |                                      |        |                                  |  |
| Subscription                               | \$ 420.6                         | \$ 224.5                             | 114 %  | \$ 196.1                         | Up due to growth across all subscription plan types, led by new product subscriptions and EBAs. Also contributing to the growth is the success of our business model transition as maintenance plan subscriptions migrate to product subscriptions with the M2S program. |
| Maintenance (1)                            | 166.4                            | (95.4 )                              | (36 )% | 261.8                            | Down due to migration of maintenance plan subscriptions to product subscriptions with the M2S program as well as the discontinuation of new maintenance agreements.  |
| Total subscription and maintenance revenue | 587.0                            | 129.1                                | 28 %   | 457.9                            |  |
| Other (2)                                  | 24.7                             | (19.2 )                              | (44 )% | 43.9                             | Down as a result of the business model transition and the discontinuation of perpetual license sales.  |
|  | \$ 611.7                         | \$ 109.9                             | 22 %   | \$ 501.8                         |  |
|  | Six Months Ended July 31, 2018   | Change compared to prior fiscal year |        | Six Months Ended July 31, 2017   | Management Comments  |
|  | \$                               |                                      | %      |                                  |  |
| Net Revenue:                               |                                  |                                      |        |                                  |  |
| Subscription                               | \$ 771.0                         | \$ 401.5                             | 109 %  | \$ 369.5                         | Up due to growth across all subscription plan types, led by new product subscriptions and EBAs. Also contributing to the growth is the success of our business model transition as maintenance plan subscriptions migrate to product subscriptions with the M2S program. |
| Maintenance (1)                            | 347.6                            | (177.8 )                             | (34 )% | 525.4                            | Down due to migration of maintenance plan subscriptions to product subscriptions with the M2S program as well as the discontinuation of new maintenance agreements.  |
| Total subscription and maintenance revenue | 1,118.6                          | 223.7                                | 25 %   | 894.9                            |  |
| Other (2)                                  | 53.0                             | (39.6 )                              | (43 )% | 92.6                             | Down as a result of the business model transition and the discontinuation of perpetual license sales.  |
|  | \$ 1,171.6                       | \$ 184.1                             | 19 %   | \$ 987.5                         |  |

(1) We expect maintenance revenue will slowly decline; however, the rate of decline will vary based on the number of renewals, the renewal rate, and our ability to incentivize maintenance plan customers to switch over to subscription plan offerings.

(2) Previously labeled as "License and other" in prior periods.

*Net Revenue by Product Family*

Our product offerings are focused in four primary product families: AEC, MFG, ACAD, and M&E.

| <i>(in millions)</i>               | <b>Three<br/>Months<br/>Ended<br/>July 31,<br/>2018</b> | <b>Change compared to<br/>prior fiscal year</b> |        | <b>Three<br/>Months<br/>Ended<br/>July 31,<br/>2017</b> | <b>Management Comments</b>  |
|------------------------------------|---|---|--------|---|---|
|                                    | <b>\$</b>   | <b>%</b>  |        |   |   |
| Net Revenue by Product Family (1): |   |   |        |   |   |
| AEC                                | \$ 243.1  | \$ 53.5   | 28 %   | \$ 189.6  | Up due to an increase in AEC collections and legacy suites driven by the discontinuation of perpetual licenses and the strong results of our M2S program. Contributing to the growth was an increase in revenue from EBAs and our Revit individual product offering driven by the increase in subscription additions. |
| ACAD                               | 176.6   | 41.0  | 30 %   | 135.6   | Up due to increases in both AutoCAD LT and AutoCAD subscription additions.  |
| MFG                                | 146.1   | 13.8  | 10 %   | 132.3   | Up due to an increase in MFG collections and legacy suites driven by the discontinuation of perpetual licenses and the strong results of our M2S program. Contributing to the growth was an increase in revenue from EBAs driven by an increase in subscription additions.  |
| M&E                                | 41.7  | 3.7   | 10 %   | 38.0  | Up due to an increase in revenue from our 3DS Max and Maya individual product offerings driven by an increase in subscription additions.  |
| Other                              | 4.2   | (2.1 )  | (33 )% | 6.3   |   |
|                                    | \$ 611.7  | \$ 109.9  | 22 %   | \$ 501.8  |   |
|                                    | <b>Six<br/>Months<br/>Ended<br/>July 31,<br/>2018</b>   | <b>Change compared to<br/>prior fiscal year</b> |        | <b>Six<br/>Months<br/>Ended<br/>July 31,<br/>2017</b>   |   |
|                                    | <b>\$</b>   | <b>%</b>  |        |   |   |
| Net Revenue by Product Family (1): |   |   |        |   |   |
| AEC                                | \$ 464.9  | \$ 89.4   | 24 %   | \$ 375.5  | Up due to an increase in AEC collections and legacy suites driven by the discontinuation of perpetual licenses and the strong results of our M2S program. Contributing to the growth was an increase in revenue from EBAs and our Revit individual product offering driven by the increase in subscription additions. |
| ACAD                               | 332.2   | 67.6  | 26 %   | 264.6   | Up due to increases in both AutoCAD LT and AutoCAD subscription additions.  |
| MFG                                | 281.5   | 20.9  | 8 %    | 260.6   | Up due to growth in EBAs driven by an increase in subscription additions. Also contributing to the growth was an increase in MFG collections and legacy suites driven by the discontinuation of perpetual licenses and the strong results of our M2S program.   |
| M&E                                | 83.5  | 9.0   | 12 %   | 74.5  | Up due to an increase in revenue from our 3DS Max and Maya individual product offerings driven by an increase in subscription additions.  |
| Other                              | 9.5   | (2.8 )  | (23 )% | 12.3  |   |
|                                    | \$ 1,171.6  | \$ 184.1  | 19 %   | \$ 987.5  |   |

(1) Due to changes in the go-to-market offerings of our AutoCAD product subscription, prior period balances have been adjusted to conform to current period presentation.

*Net Revenue by Geographic Area*

|                       | Three<br>Months<br>Ended<br>July 31,<br>2018 | Change<br>compared to<br>prior<br>fiscal year |      | Constant<br>Currency<br>Change<br>compared<br>to prior<br>fiscal year | Three<br>Months<br>Ended<br>July 31,<br>2017 |
|-----------------------|--|---|------|---|--|
| <i>(in millions)</i>  |  | \$  | %    | %   |  |
| Net Revenue:          |  |   |      |   |  |
| Americas              |  |   |      |   |  |
| U.S.                  | \$ 205.2                                     | \$ 20.6                                       | 11 % | *   | \$ 184.6                                     |
| Other Americas        | 42.3   | 12.9  | 44 % | *   | 29.4   |
| Total Americas        | 247.5  | 33.5  | 16 % | 15 %  | 214.0  |
| EMEA                  | 248.3  | 49.0  | 25 % | 22 %  | 199.3  |
| APAC                  | 115.9  | 27.4  | 31 % | 30 %  | 88.5   |
| Total Net Revenue (1) | \$ 611.7                                     | \$ 109.9                                      | 22 % | 21 %  | \$ 501.8                                     |

|                    |         |         |      |      |         |
|--------------------|---------|---------|------|------|---------|
| Emerging Economies | \$ 74.2 | \$ 20.4 | 38 % | 36 % | \$ 53.8 |
|--------------------|---------|---------|------|------|---------|

|                       | Six<br>Months<br>Ended<br>July 31,<br>2018 | Change<br>compared to<br>prior<br>fiscal year |      | Constant<br>currency<br>change<br>compared<br>to prior<br>fiscal year | Six<br>Months<br>Ended<br>July 31,<br>2017 |
|-----------------------|--|---|------|---|--|
| <i>(in millions)</i>  |  | \$  | %    | %   |  |
| Net Revenue:          |  |   |      |   |  |
| Americas              |  |   |      |   |  |
| U.S.                  | \$ 401.1                                   | \$ 36.7                                       | 10 % | *   | \$ 364.4                                   |
| Other Americas        | 79.9                                       | 20.2  | 34 % | *   | 59.7                                       |
| Total Americas        | 481.0                                      | 56.9  | 13 % | 13 %  | 424.1                                      |
| EMEA                  | 469.2                                      | 80.2  | 21 % | 19 %  | 389.0                                      |
| APAC                  | 221.4                                      | 47.0  | 27 % | 26 %  | 174.4                                      |
| Total Net Revenue (1) | \$ 1,171.6                                 | \$ 184.1                                      | 19 % | 18 %  | \$ 987.5                                   |

|                    |          |         |      |      |          |
|--------------------|----------|---------|------|------|----------|
| Emerging Economies | \$ 139.4 | \$ 34.7 | 33 % | 32 % | \$ 104.7 |
|--------------------|----------|---------|------|------|----------|

(1) Totals may not sum due to rounding.

\* Constant currency data not provided at this level.

We believe that international revenue will continue to comprise a majority of our net revenue. Unfavorable economic conditions in the countries that contribute a significant portion of our net revenue, including in emerging economies such as Brazil, Russia, India, and China, may have an adverse effect on our business in those countries and our overall financial performance. Changes in the value of the U.S. dollar relative to other currencies have significantly affected, and could continue to significantly affect, our financial results for a given period even though we hedge a portion of our current and projected revenue. Increases to the levels of political and economic unpredictability in the global market may impact our future financial results.



*Net Revenue by Sales Channel*

| <i>(in millions)</i>          | <b>Three<br/>Months<br/>Ended<br/>July 31,<br/>2018</b> | <b>Change compared to<br/>prior fiscal year</b>     |          | <b>Three<br/>Months<br/>Ended<br/>July 31,<br/>2017</b> | <b>Management Comments</b>  |
|-------------------------------|---|---|----------|---|---|
|                               |   | <b>\$</b>   | <b>%</b> |   |   |
| Net Revenue by Sales Channel: |   |   |          |   |   |
| Indirect                      | \$440.2   | \$ 85.5   | 24 %     | \$ 354.7  | Up due to an increase in subscription revenue.                                    |
| Direct                        | 171.5   | 24.4  | 17 %     | 147.1   | Up due to an increase in revenue from EBAs and our online Autodesk branded store. |
| Total Net Revenue (1)         | \$611.7   | \$ 109.9  | 22 %     | \$ 501.8  |   |
|                               |   |   |          |   |   |
|                               | <b>Six<br/>Months<br/>Ended<br/>July 31,<br/>2018</b>   | <b>Change<br/>compared to<br/>prior fiscal year</b> |          | <b>Six<br/>Months<br/>Ended<br/>July 31,<br/>2017</b>   | <b>Management Comments</b>  |
|                               |   | <b>\$</b>   | <b>%</b> |   |   |
| Net Revenue by Sales Channel: |   |   |          |   |   |
| Indirect                      | \$838.5   | \$ 143.7  | 21 %     | \$ 694.8  | Up due to an increase in subscription revenue.                                    |
| Direct                        | 333.1   | 40.4  | 14 %     | 292.7   | Up due to an increase in revenue from EBAs and our online Autodesk branded store. |
| Total Net Revenue (1)         | \$1,171.6   | \$ 184.1  | 19 %     | \$ 987.5  |   |

(1) Totals may not sum due to rounding.

*Cost of Revenue and Operating Expenses*

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

Cost of other revenue includes labor costs associated with product setup, costs of consulting and training services contracts, and collaborative project management services contracts. Cost of other revenue also includes stock-based compensation expense, direct material and overhead charges, allocated IT and facilities costs, professional services fees and royalties. Direct material and overhead charges include the cost associated with electronic and physical fulfillment.

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

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

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

General and administrative expenses include salaries, bonuses, transition costs, benefits and stock-based compensation expense for our CEO, finance, human resources and legal employees, as well as professional fees for legal and accounting



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services, certain foreign business taxes, gains and losses on our operating expense cash flow hedges, expense of travel, entertainment and training, net IT and facilities costs, and the cost of supplies and equipment.

| <i>(in millions)</i>                 | <b>Three Months Ended July 31, 2018</b> | <b>Change compared to prior fiscal year</b> |          | <b>Three Months Ended July 31, 2017</b> | <b>Management comments</b>  |
|--------------------------------------|---|---|----------|---|---|
|                                      |   | <b>\$</b>                                   | <b>%</b> |   |   |
| Cost of revenue:                     |   |   |          |   |   |
| Subscription and maintenance         | \$ 54.1                                 | \$ 1.3                                      | 2 %      | \$ 52.8                                 | Up primarily due to an increase in professional service fees driven by an increase in SaaS and hosting costs.                                     |
| Other (1)                            | 12.3                                    | (5.5 )                                      | (31 )%   | 17.8                                    | Down primarily due to a decrease in employee-related costs driven by decreased headcount associated with the Fiscal 2018 Plan restructuring.      |
| Amortization of developed technology | 3.4                                     | (0.6 )                                      | (15 )%   | 4.0                                     | Down as previously acquired developed technologies continue to become fully amortized while fewer assets are acquired compared to the prior year. |
| Total cost of revenue                | \$ 69.8                                 | \$ (4.8 )                                   | (6 )%    | \$ 74.6                                 |   |

Operating expenses:

|   |          |         |        |          |  |
|---|----------|---------|--------|----------|--|
| Marketing and sales                         | \$ 289.1 | \$ 31.5 | 12 %   | \$ 257.6 | Up due to the adoption of ASC Topic 340-40, and increased employee-related costs from higher headcount.  |
| Research and development                    | 180.8    | (13.0 ) | (7 )%  | 193.8    | Down primarily due to a decrease in employee-related costs driven by decreased headcount associated with the Fiscal 2018 Plan restructuring.   |
| General and administrative                  | 79.1     | 1.1     | 1 %    | 78.0     | Up primarily due to an increase in employee-related costs and higher professional fees partially offset by a decrease in stock-based compensation expense from awards that were accelerated as part of the CEO transition during the first quarter of the prior year.                                    |
| Amortization of purchased intangibles       | 3.8      | (1.1 )  | (22 )% | 4.9      | Down as previously acquired intangible assets continue to become fully amortized while fewer assets are acquired compared to the prior years.  |
| Restructuring and other exit costs, net (2) | 13.8     | 13.3    | *      | 0.5      | Driven by the Fiscal 2018 Plan to re-balance resources to better align with the Company's strategic priorities and position itself to meet long-term goals. Costs associated with the Fiscal 2018 Plan are principally from employee termination benefits, lease termination costs and other exit costs. |
| Total operating expenses                    | \$ 566.6 | \$ 31.8 | 6 %    | \$ 534.8 |  |

|                                      | <b>Six Months Ended July 31, 2018</b> | <b>Change compared to prior fiscal year</b> |          | <b>Six Months Ended July 31, 2017</b> | <b>Management comments</b>  |
|--------------------------------------|---------------------------------------|---|----------|---------------------------------------|---|
|                                      |                                       | <b>\$</b>                                   | <b>%</b> |                                       |   |
| Cost of revenue:                     |                                       |   |          |                                       |   |
| Subscription and maintenance         | \$ 104.5                              | \$ (3.2 )                                   | (3 )%    | \$ 107.7                              | Down due to a decrease in employee-related costs on lower average headcount during the period compared to the prior period as well as a decrease in royalty expense.          |
| Other (1)                            | 25.1                                  | (11.3 )                                     | (31 )%   | 36.4                                  | Down due to lower employee-related costs from reduced headcount associated with license and other revenue products and services as a result of the business model transition. |
| Amortization of developed technology | 7.0                                   | (1.7 )                                      | (20 )%   | 8.7                                   | Down as previously acquired intangible assets continue to become fully amortized while fewer assets are acquired compared to the prior years.                                 |
| Total cost of revenue                | \$ 136.6                              | \$ (16.2 )                                  | (11 )%   | \$ 152.8                              |   |

Operating expenses:

|                     |          |         |      |          |  |
|---------------------|----------|---------|------|----------|--|
| Marketing and sales | \$ 565.5 | \$ 52.2 | 10 % | \$ 513.3 | Up due to the adoption of ASC Topic 340-40 and increased employee-related costs from higher headcount. |
|---------------------|----------|---------|------|----------|--|



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|   |           |         |       |           |  |
|---|-----------|---------|-------|-----------|--|
| Research and development                    | 353.6     | (27.9 ) | (7 )% | 381.5     | Down primarily due to a decrease in employee-related costs driven by decreased headcount associated with the Fiscal 2018 Plan restructuring.   |
| General and administrative                  | 152.0     | (4.3 )  | (3 )% | 156.3     | Down primarily due to a decrease in stock-based compensation expense driven by awards that were accelerated as part of the CEO transition during the first quarter of the prior year partially offset by higher professional fees and increased facilities costs.  |
| Amortization of purchased intangibles       | 7.6       | (3.0 )  | (28)% | 10.6      | Down as previously acquired intangible assets continue to become fully amortized while fewer assets are acquired compared to the prior years.  |
| Restructuring and other exit costs, net (2) | 36.3      | 36.1    | *     | 0.2       | Driven by the Fiscal 2018 Plan to re-balance resources to better align with the Company's strategic priorities and position itself to meet long-term goals. Costs associated with the Fiscal 2018 Plan are principally from employee termination benefits, lease termination costs and other exit costs. |
| Total operating expenses                    | \$1,115.0 | \$53.1  | 5 %   | \$1,061.9 |  |

(1) Previously labeled as "License and other" in prior periods.

(2) See Note 14, "Restructuring and other exit costs, net" in the Notes to Condensed Consolidated Financial Statements for additional information.

\* Percentage is not meaningful.

The following table highlights our expectation for the absolute dollar change and percent of revenue change between the third quarter of fiscal 2019, as compared to the third quarter of fiscal 2018:

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

### *Interest and Other Income (Expense), Net*

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

|  | Three Months<br>Ended July 31, |          | Six Months<br>Ended July 31, |          |
|--|--------------------------------|----------|------------------------------|----------|
| (in millions)  | 2018                           | 2017     | 2018                         | 2017     |
| Interest and investment expense, net                       | \$(8.7)                        | \$(10.0) | \$(21.9)                     | \$(16.9) |
| Gain (loss) on foreign currency                            | 1.8                            | 0.3      | 3.9                          | (0.7 )   |
| Gain (loss) on strategic investments and dispositions, net | 4.0                            | (13.5 )  | 6.7                          | (7.8 )   |
| Other (expense) income                                     | 4.2                            | 4.4      | 4.1                          | 4.8      |
| Interest and other income (expense), net                   | \$1.3                          | \$(18.8) | \$(7.2 )                     | \$(20.6) |

Interest and other income (expense), net increased \$20.1 million and \$13.4 million during the three and six months ended July 31, 2018, respectively, as compared to the same periods in the prior fiscal year, primarily driven by mark to market gains on certain of our privately-held strategic investments.

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

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

the period.

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### *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.

Autodesk had an income tax expense of \$16.0 million, relative to pre-tax losses of \$23.4 million for the three months ended July 31, 2018, and an income tax expense of \$17.6 million, relative to pre-tax losses of \$126.4 million for the three months ended July 31, 2017. Autodesk had an income tax expense of \$34.6 million, relative to pre-tax losses of \$87.2 million for the six months ended July 31, 2018, and an income tax expense of \$25.8 million, relative to pre-tax losses of \$247.8 million for the six months ended July 31, 2017. The variance between the three months ended July 31, 2017, and July 31, 2018, was mainly due to a net tax benefit from an internal structure realignment in connection with the closure of our Switzerland operations. The tax benefit was partially offset with income taxes in profitable jurisdictions and withholdings taxes. Income tax expense for the six months ended increased primarily due to increased worldwide earnings, foreign taxes, and withholding taxes.

A valuation allowance is recorded to reduce deferred tax assets when management cannot conclude that it is more likely than not that the net deferred tax asset will be recovered. The valuation allowance is determined by assessing both positive and negative evidence to determine whether it is more likely than not that deferred tax assets are recoverable; such assessment is required on a jurisdiction-by-jurisdiction basis. Significant judgment is required in determining whether the valuation allowance should be recorded against deferred tax assets. In assessing the need for a valuation allowance, we consider all available evidence including past operating results and estimates of future taxable income. Beginning in the second quarter of fiscal 2016, we considered recent cumulative losses in the United States arising from the Company's business model transition as a significant source of negative evidence. Considering this negative evidence and the absence of sufficient positive objective evidence that we would generate sufficient taxable income in our United States tax jurisdiction to realize the deferred tax assets, we determined that it was not more likely than not that the Company would realize the U.S. federal and state deferred tax assets and recorded a full valuation allowance. As we continually strive to optimize our overall business model, tax planning strategies may become feasible whereby management may determine that it is more likely than not that the federal and state deferred tax assets will be realized; as a result, we will continue to evaluate the realizability of our net deferred tax assets each quarter, both in the U.S. and in foreign jurisdictions, based on all available evidence, both positive and negative.

As of July 31, 2018, we had \$343.1 million of gross unrecognized tax benefits, of which \$310.0 million represents the amount of unrecognized tax benefits that would reduce our valuation allowance, if recognized. The remaining \$33.1 million would impact the effective tax rate. 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 EMEA and APAC subsidiaries. Our future effective tax rates may be adversely affected to the extent earnings are lower than anticipated in countries where we have lower statutory tax rates or we repatriate certain foreign earnings on which U.S. taxes have not previously been provided.

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

The Tax Act was enacted on December 22, 2017, and provides broad and significant changes to the U.S. tax code and how the U.S. imposes income tax on multinational corporations. The Tax Act requires complex computations to be performed that were not previously provided for in the U.S. tax law. These computations require significant judgments to be made regarding the interpretation of the provisions within the Tax Act, along with preparation and analysis of information not previously required. In conjunction with the Tax Act, the SEC issued SAB 118 that allows us to record provisional amounts until a final assessment can be made within a period not to exceed one year from the date of enactment, which would be during our quarter ending October 31, 2018.

We have not completed our determination of the accounting implications of the Tax Act on our results of operations. As of July 31, 2018, there have been no material adjustments to provision amounts as were determined at January 31, 2018. As additional regulatory guidance is issued and we continue to collect and analyze necessary data, we may make adjustments to provisional amounts previously recorded. We do not anticipate these adjustments to materially impact our provision for income taxes in the period in which the adjustments are made since we are in a full valuation allowance in the U.S.

## 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, 2018 and 2017, our gross profit, gross margin, loss from operations, operating margin, net loss, diluted net loss per share and diluted shares used in per share calculation on a GAAP and non-GAAP basis were as follows (in millions except for gross margin, operating margin, and per share data):

|  | Three Months Ended<br>July 31,<br>2018 |    |            |    | Six Months Ended July<br>31,<br>2017 |    |            |    |
|--|--|----|------------|----|--------------------------------------|----|------------|----|
|  | 2018                                   |    | 2017       |    | 2018                                 |    | 2017       |    |
|  | (Unaudited)                            |    |            |    |                                      |    |            |    |
| Gross profit   | \$541.9                                |    | \$427.2    |    | \$1,035.0                            |    | \$834.7    |    |
| Non-GAAP gross profit  | \$549.3                                |    | \$435.0    |    | \$1,049.5                            |    | \$851.1    |    |
| Gross margin   | 89                                     | %  | 85         | %  | 88                                   | %  | 85         | %  |
| Non-GAAP gross margin  | 90                                     | %  | 87         | %  | 90                                   | %  | 86         | %  |
| Loss from operations   | \$(24.7 )                              |    | \$(107.6 ) |    | \$(80.0 )                            |    | \$(227.2 ) |    |
| Non-GAAP income (loss) from operations                                 | \$55.6                                 |    | \$(28.8 )  |    | \$84.6                               |    | \$(68.3 )  |    |
| Operating margin   | (4 )                                   | %) | (21 )      | %) | (7 )                                 | %) | (23 )      | %) |
| Non-GAAP operating margin  | 9                                      | %  | (6 )       | %) | 7                                    | %  | (7 )       | %) |
| Net loss   | \$(39.4 )                              |    | \$(144.0 ) |    | \$(121.8 )                           |    | \$(273.6 ) |    |
| Non-GAAP net income (loss)   | \$43.2                                 |    | \$(25.2 )  |    | \$57.6                               |    | \$(60.0 )  |    |
| GAAP diluted net loss per share (1)                                    | \$(0.18 )                              |    | \$(0.66 )  |    | \$(0.56 )                            |    | \$(1.25 )  |    |
| Non-GAAP diluted net income (loss) per share (1)                       | \$0.19                                 |    | \$(0.11 )  |    | \$0.26                               |    | \$(0.27 )  |    |
| GAAP diluted shares used in per share calculation                      | 219.0                                  |    | 219.5      |    | 218.8                                |    | 219.7      |    |
| Non-GAAP diluted weighted average shares used in per share calculation | 222.2                                  |    | 219.5      |    | 222.0                                |    | 219.7      |    |

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

For our internal budgeting and resource allocation process and as a means to evaluate period-to-period comparisons, we use non-GAAP measures to supplement our condensed consolidated financial statements presented on a GAAP basis. These non-GAAP measures do not include certain items that may have a material impact upon our reported financial results. We also use non-GAAP measures in making operating decisions because we believe those measures provide meaningful supplemental information regarding our earning potential and performance for management by excluding certain expenses and charges that may not be indicative of our core business operating results. For the reasons set forth below, we believe these non-GAAP financial measures are useful to investors both because (1) they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making and (2) they are used by our institutional investors and the analyst community to help them analyze the health of our business. This allows investors and others to better understand and evaluate our operating results and future prospects in the same manner as management, compare financial results across accounting periods and to those of peer companies and to better understand the long-term performance of our core business. We also use some of these

measures for purposes of determining company-wide incentive compensation.

There are limitations in using non-GAAP financial measures because non-GAAP financial measures are not prepared in accordance with GAAP and may be different from non-GAAP financial measures used by other companies. The non-GAAP financial measures included above are limited in value because they exclude certain items that may have a material impact upon our reported financial results. In addition, they are subject to inherent limitations as they reflect the exercise of judgments by management about which charges are excluded from the non-GAAP financial measures. We compensate for these limitations by analyzing current and future results on a GAAP basis as well as a non-GAAP basis and also by providing GAAP



measures in our public disclosures. The presentation of non-GAAP financial information is meant to be considered in addition to, not as a substitute for or in isolation from, the directly comparable financial measures prepared in accordance with GAAP. We urge investors to review the reconciliation of our non-GAAP financial measures to the comparable GAAP financial measures included below, and not to rely on any single financial measure to evaluate our business.

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

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

|   | <b>Three Months Ended<br/>July 31,</b> |             | <b>Six Months Ended July<br/>31,</b> |             |
|---|--|-------------|--------------------------------------|-------------|
|   | <b>2018</b>                            | <b>2017</b> | <b>2018</b>                          | <b>2017</b> |
|   | <b>(Unaudited)</b>                     |             |                                      |             |
| Gross profit  | \$541.9                                | \$427.2     | \$1,035.0                            | \$834.7     |
| Stock-based compensation expense                            | 4.0                                    | 3.8         | 7.5                                  | 7.7         |
| Amortization of developed technologies                      | 3.4                                    | 4.0         | 7.0                                  | 8.7         |
| Non-GAAP gross profit                                       | \$549.3                                | \$435.0     | \$1,049.5                            | \$851.1     |
| Gross margin  | 89                                     | % 85        | % 88                                 | % 85        |
| Stock-based compensation expense                            | 1                                      | % 1         | % 1                                  | % —         |
| Amortization of developed technologies                      | 1                                      | % 1         | % 1                                  | % 1         |
| Non-GAAP gross margin (2)                                   | 90                                     | % 87        | % 90                                 | % 86        |
| Loss from operations  | \$(24.7 )                              | \$(107.6)   | \$(80.0 )                            | \$(227.2)   |
| Stock-based compensation expense                            | 56.9                                   | 58.8        | 111.3                                | 117.8       |
| Amortization of developed technologies                      | 3.4                                    | 4.0         | 7.0                                  | 8.7         |
| Amortization of purchased intangibles                       | 3.8                                    | 4.9         | 7.6                                  | 10.6        |
| CEO transition costs (1)                                    | (0.1 )                                 | 10.6        | (0.1 )                               | 21.6        |
| Acquisition related costs                                   | 2.5                                    | —           | 2.5                                  | —           |
| Restructuring and other exit costs, net                     | 13.8                                   | 0.5         | 36.3                                 | 0.2         |
| Non-GAAP income (loss) from operations                      | \$55.6                                 | \$(28.8 )   | \$84.6                               | \$(68.3 )   |
| Operating margin  | (4 )%                                  | (21 )%      | (7 )%                                | (23 )%      |
| Stock-based compensation expense                            | 9                                      | % 12        | % 9                                  | % 12        |
| Amortization of developed technologies                      | 1                                      | % 1         | % 1                                  | % 1         |
| Amortization of purchased intangibles                       | 1                                      | % 1         | % 1                                  | % 1         |
| CEO transition costs (1)                                    | —                                      | % 2         | % —                                  | % 2         |
| Acquisition related costs                                   | —                                      | % —         | % —                                  | % —         |
| Restructuring and other exit costs, net                     | 2                                      | % —         | % 3                                  | % —         |
| Non-GAAP operating margin (2)                               | 9                                      | % (6 )%     | % 7                                  | % (7 )%     |
| Net loss  | \$(39.4 )                              | \$(144.0)   | \$(121.8 )                           | \$(273.6)   |
| Stock-based compensation expense                            | 56.9                                   | 58.8        | 111.3                                | 117.8       |
| Amortization of developed technologies                      | 3.4                                    | 4.0         | 7.0                                  | 8.7         |
| Amortization of purchased intangibles                       | 3.8                                    | 4.9         | 7.6                                  | 10.6        |
| CEO transition costs (1)                                    | (0.1 )                                 | 10.6        | (0.1 )                               | 21.6        |
| Acquisition related costs                                   | 2.5                                    | —           | 2.5                                  | —           |
| Restructuring and other exit costs, net                     | 14.1                                   | 0.5         | 36.6                                 | 0.2         |
| (Gain) loss on strategic investments and dispositions, net  | (3.9 )                                 | 13.5        | (6.6 )                               | 7.8         |
| Discrete tax items  | (8.7 )                                 | (0.1 )      | (8.7 )                               | (7.7 )      |
| Establishment of valuation allowance on deferred tax assets | —                                      | —           | —                                    | —           |
| Income tax effect of non-GAAP adjustments                   | 14.6                                   | 26.6        | 29.8                                 | 54.6        |
| Non-GAAP net income (loss)                                  | \$43.2                                 | \$(25.2 )   | \$57.6                               | \$(60.0 )   |

|   | Three Months<br>Ended July 31,<br>2018 |          | Six Months<br>Ended July 31,<br>2017 |          |
|---|--|----------|--------------------------------------|----------|
|   | 2018                                   | 2017     | 2018                                 | 2017     |
|   | (Unaudited)                            |          |                                      |          |
| GAAP diluted net loss per share (3)                         | \$(0.18)                               | \$(0.66) | \$(0.56)                             | \$(1.25) |
| Stock-based compensation expense                            | 0.26                                   | 0.27     | 0.51                                 | 0.54     |
| Amortization of developed technologies                      | 0.02                                   | 0.02     | 0.04                                 | 0.04     |
| Amortization of purchased intangibles                       | 0.01                                   | 0.02     | 0.03                                 | 0.05     |
| CEO transition costs (1)                                    | —                                      | 0.05     | —                                    | 0.09     |
| Acquisition related costs                                   | 0.01                                   | —        | 0.01                                 | —        |
| Restructuring and other exit costs, net                     | 0.06                                   | —        | 0.16                                 | —        |
| (Gain) loss on strategic investments and dispositions, net  | (0.02)                                 | 0.07     | (0.03)                               | 0.04     |
| Discrete tax items  | (0.04)                                 | —        | (0.04)                               | (0.03)   |
| Establishment of valuation allowance on deferred tax assets | —                                      | —        | —                                    | —        |
| Income tax effect of non-GAAP adjustments                   | 0.07                                   | 0.12     | 0.14                                 | 0.25     |
| Non-GAAP diluted net income (loss) per share (3)            | \$0.19                                 | \$(0.11) | \$0.26                               | \$(0.27) |

(1) CEO transition costs include stock-based compensation of \$8.8 million and \$16.6 million related to the acceleration of eligible stock awards in the three and six months ended July 31, 2017, respectively.

(2) Totals may not sum due to rounding.

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

Our non-GAAP financial measures may exclude the following:

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

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

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

*Goodwill impairment.* This is a non-cash charge to write-down goodwill to fair value when there was an indication

that the asset was impaired. As explained above, management finds it useful to exclude certain non-cash charges to assess the appropriate level of various operating expenses to assist in budgeting, planning and forecasting future periods.

*Restructuring and other exit costs, 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.

*Acquisition related costs.* We exclude certain acquisition related costs, including due diligence costs, professional fees in connection with an acquisition, certain financing costs, and certain integration related expenses. These expenses are unpredictable, and dependent on factors that may be outside of our control and unrelated to the continuing operations of the acquired business, or our Company. In addition, the size and complexity of an acquisition, which often drives the magnitude of acquisition related costs, may not be indicative of such future costs. We believe excluding acquisition related costs facilitates the comparison of our financial results to the Company's historical operating results and to other companies in our industry.

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

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

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

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

## **Liquidity and Capital Resources**

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

At July 31, 2018, our principal sources of liquidity were cash, cash equivalents and marketable securities totaling \$1.3 billion and net accounts receivable of \$234.4 million.

As of July 31, 2018, we have \$1.6 billion aggregate principal amount of Notes outstanding (see Note 13, "Borrowing Arrangements," in the Notes to Condensed Consolidated Financial Statements for further discussion). 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, with an option to request an increase in the amount of the credit facility by up to an additional \$100.0 million. This credit agreement contains customary covenants that could restrict the imposition of liens on our assets, and restrict the Company's ability to incur additional indebtedness or make dispositions of assets if we fail to maintain the financial covenants. As the result of a forecasted inability to comply with the credit agreement's minimum interest coverage ratio in the second quarter of fiscal 2019, the Company renegotiated the credit agreement financial covenants in June 2018. The amended financial covenants now consist of a maximum debt to total cash ratio, a fixed charge coverage ratio extending through October 31, 2018, and after October 31, 2018, a minimum interest coverage ratio. As of August 30, 2018, we have no amounts outstanding under the credit facility. If we are unable to remain in compliance with the covenants, we will not be able to draw on our credit facility. Borrowings under the credit facility and the net proceeds from the offering of the Notes are available for general corporate purposes.

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

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

In connection with the Company's closure of certain offices and reduction of workforces worldwide, the Company is in discussions with tax authorities regarding the closure of offices and the redeployment/transfer of assets. At this time, the Company cannot estimate the tax implications of these discussions.

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, 2018, other than what was previously discussed in this section regarding our latest debt issuance and repayment, there have been no material changes in our contractual obligations or commercial commitments compared to those we disclosed in management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2018.

Our cash, cash equivalents, and marketable securities balances are concentrated in a few locations around the world, with substantial amounts held outside of the United States. As of July 31, 2018, approximately 84% of our total cash or cash equivalents and marketable securities are located in foreign jurisdictions and that percentage will fluctuate subject to business needs. There are several factors that can impact our ability to utilize foreign cash balances, such as foreign exchange restrictions, foreign regulatory restrictions or adverse tax costs. The Tax Act includes a mandatory one-time tax on accumulated earnings of foreign subsidiaries and generally eliminates U.S. taxes on foreign subsidiary distributions in future periods. As a result, earnings in foreign jurisdictions are generally available for distribution to the U.S. with little to no incremental U.S. taxes. We expect to meet our liquidity needs through current cash balances, ongoing cash flows, external borrowings, or a combination. We regularly review our capital structure and consider a variety of potential financing alternatives and planning strategies to ensure we have the proper liquidity available in the locations in which it is needed.

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

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

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|   | Six Months<br>Ended July 31, |          |
|---|------------------------------|----------|
|   | 2018                         | 2017     |
| (in millions)                                       |                              |          |
| Net cash provided by (used in) operating activities | \$26.4                       | \$(27.3) |
| Net cash (used in) provided by investing activities | (40.3 )                      | 200.7    |
| Net cash used in financing activities               | (157.3)                      | (218.0 ) |

Net cash provided by operating activities of \$26.4 million for the six months ended July 31, 2018 includes our net loss of \$121.8 million.



The primary working capital source of cash was a decrease in accounts receivable from \$438.2 million as of January 31, 2018 to \$234.4 million as of July 31, 2018. The primary working capital uses of cash were decreases in accrued compensation, other accrued liabilities, and deferred revenue.

Net cash used in investing activities was \$40.3 million for the six months ended July 31, 2018, driven by the purchases of marketable securities, capital expenditures and acquisitions, net of cash acquired. These cash outflows were partially offset by the sale and maturities of marketable securities.

At July 31, 2018, our short-term investment portfolio had an estimated fair value of \$274.4 million and a cost basis of \$266.7 million. The portfolio fair value consists of \$64.7 million invested in corporate debt securities, \$62.7 million invested in commercial paper, \$41.2 million invested in U.S. government securities, \$12.5 million invested in agency bonds, \$12.1 million invested in asset backed securities, \$7.7 million invested in certificates of deposit, \$6.5 million invested in sovereign debt, and \$5.0 million invested in municipal bonds.

At July 31, 2018, \$62.0 million of short-term trading securities were invested in a defined set of mutual funds as directed by the participants in our Deferred Compensation Plan (see Note 11, "Deferred Compensation," in the Notes to Condensed Consolidated Financial Statements for further discussion).

Net cash used in financing activities was \$157.3 million for the six months ended July 31, 2018, driven by repurchases of common stock and taxes paid for net settlement of equity awards. These cash outflows were offset in part by cash proceeds from the issuance of common stock.

### Issuer Purchases of Equity Securities

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

The following table provides information about the repurchase of common stock in open-market transactions during the quarter ended July 31, 2018:

| <i>(Shares in millions)</i> | <b>Total Number of<br/>Shares<br/>Purchased</b> | <b>Average Price<br/>Paid per Share</b> | <b>Total Number of<br/>Shares<br/>Purchased as<br/>Part of Publicly<br/>Announced<br/>Plans or<br/>Programs (1)</b> | <b>Maximum<br/>Number of<br/>Shares that May<br/>Yet Be<br/>Purchased Under<br/>the Plans or<br/>Programs (2)</b> |
|-----------------------------|---|---|---|---|
| May 1 - May 31              | —   | \$ —                                    | —   | 19.5  |
| June 1 - June 30            | 0.5   | 130.68                                  | 0.5   | 19.0  |
| July 1 - July 31            | 0.6   | 132.19                                  | 0.6   | 18.4  |
| Total                       | 1.1   | \$ 131.52                               | 1.1   |   |

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

(2) These amounts correspond to the plan approved by the Board of Directors in September 2016 that authorized the repurchase of 30.0 million shares. The plan does not have a fixed expiration date. See Note 16, "Common Stock Repurchase Program," in the Notes to Condensed

Consolidated Financial Statements for further discussion.

On July 3, 2018, in connection with our acquisition of Assemble Systems, Inc., we issued 340,769 shares of our common stock to certain former holders of capital stock of Assemble as partial consideration for the acquisition.

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

As of July 31, 2018, we did not have any significant off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

## Glossary of Terms

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

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

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

*Billings*—Total revenue plus change in deferred revenue from the beginning to the end of the period.

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

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

*Core business*—Represents the combination of maintenance, product, and EBA.

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

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

*Other Revenue*—Consists of revenue from consulting, training and other services, and is recognized over time as the services are performed. Other revenue also includes software license revenue from the sale of our discontinued perpetual licenses.

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

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

*Product Subscription*—Provide customers the most flexible, cost-effective way to access and manage 3D design, engineering, and entertainment software tools. Our product subscriptions currently represent a hybrid of desktop and SaaS functionality, which provides a device-independent, collaborative design workflow for designers and their stakeholders.

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

*Subscription revenue*—Includes subscription fees from product subscriptions, cloud service offerings, and enterprise business agreements (EBAs).

*Total Deferred Revenue*—Is calculated by adding together total short term, long term, and unbilled deferred revenue.

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

*Unbilled Deferred Revenue*—Unbilled deferred revenue represents contractually stated or committed orders under early renewal and multi-year billing plans for subscription, services, license and maintenance for which the associated deferred revenue has not been recognized. Under ASC 606, unbilled deferred revenue is not included as a receivable or deferred revenue on our Consolidated Balance Sheet.

### **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, 2018 and January 31, 2018, 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 \$978.3 million and \$949.5 million at July 31, 2018 and January 31, 2018, 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, 2018 indicated that a hypothetical 10% appreciation of the U.S. dollar from its value at July 31, 2018 and January 31, 2018 would increase the fair value of our foreign currency contracts by \$92.9 million and \$57.9 million, respectively. A hypothetical 10% depreciation of the dollar from its value at July 31, 2018 and January 31, 2018 would decrease the fair value of our foreign currency contracts by \$52.5 million and \$83.2 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, 2018, we had \$834.6 million of cash equivalents and marketable securities, including \$274.4 million classified as short-term marketable securities and \$128.1 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 \$1.0 million and \$1.9

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 5, "Financial Instruments," for further discussion regarding our privately held investments.

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

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

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

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

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

There were no changes in our internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended July 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

In particular, a critical component of our growth strategy is to have customers of our AutoCAD and AutoCAD LT products expand their portfolios to include our other offerings and cloud-based functionality. We want customers using individual Autodesk products to expand their portfolio with our other offerings and cloud-based functionality, 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 functionality revenue or without purchases of customer seats to our industry collections. Should this continue, our results of operations will be adversely affected. Also, adoption of our cloud and mobile computing

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

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

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

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

*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.

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

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

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

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

As a result of these actions, we will incur additional costs in the short term that will have the effect of reducing our GAAP operating margins. We may encounter challenges in the execution of these efforts, and these challenges could impact our financial results. If we are unable to successfully complete our restructuring efforts, our business and

operating results may be harmed.

*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 66% and 63% of our net revenue for the six months ended July 31, 2018 and 2017, 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, some portion of our earnings from our international operations may not be freely transferable to the U.S. due to remittance restrictions, adverse tax consequences or other factors.

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

Risks inherent in our international operations include:

- economic volatility;

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

- fluctuating currency exchange rates, including devaluations, currency controls and inflation, and 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;

- 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;

- U.S. and foreign tax law changes impacting how multinational companies are taxed;

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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;

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• software piracy; and

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

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

The Brexit vote has exacerbated and may further exacerbate many of the risks and uncertainties described above. The 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.

In addition, the current U.S. administration has recently instituted or proposed changes to foreign trade policy including the negotiation or termination of trade agreements, the imposition of tariffs on products imported from certain countries, economic sanctions on individuals, corporations or countries and other government regulations affecting trade between the United States and other countries in which we do business. New or increased tariffs and other changes in U.S. trade policy could trigger retaliatory actions by affected countries, and certain foreign governments, including the Chinese government, have instituted or are considering imposing trade sanctions on certain U.S. manufactured goods. The escalation of protectionist or retaliatory trade measures in either the United States or any other countries in which we do business, such as a change in tariff structures, export compliance or other trade policies, may increase the cost of, or otherwise interfere with, conducting our business.

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

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

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

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

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



could be subject to monetary penalties or other sanctions by OFAC in connection with its review of this issue.

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

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

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

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

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

Because we conduct a substantial portion of our business outside the U.S., 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. 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.

In addition, countries in which we operate may be classified as highly inflationary economies, requiring special accounting and financial reporting treatment for such operations, or such countries' currencies may be devalued, or both, which may adversely impact our business operations and financial results.

*Security incidents may compromise the integrity of our or our customers' products, services, data or intellectual property, harm our reputation, damage our competitiveness, create additional liability and adversely impact our financial results.*

As we digitize the Company and use cloud and web-based technologies to leverage customer data to deliver the total customer experience, we are exposed to increased security risks and the potential for unauthorized access to, or improper use of our and our customers' information. Like other software products and systems, ours are vulnerable to security incidents. We devote resources to maintain the security and integrity of our systems, products, services and

applications (online, mobile and desktop). We accomplish this by enhancing security features, conducting penetration tests, code hardening, releasing security vulnerability updates and accelerating our incident response time. Despite these efforts, we may not prevent security incidents.

Hackers regularly have targeted our systems, products, services and applications, and we expect them to do so in the future. Security incidents could disrupt the proper functioning of our systems, products or services; cause errors in the output of our customers' work; allow unauthorized access to sensitive, data or intellectual property, including proprietary or confidential information of ours or our customers; or cause other destructive outcomes.

The risk of a security incident, 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, malicious file uploads, backdoor trojans and distributed denial of service (DDoS) attacks. In addition,

third parties may attempt to fraudulently induce our employees, vendors, partners or users to disclose information to gain access to our data or our users' data and there is the risk of employee, contractor, or vendor error or malfeasance. Despite efforts to create security barriers to such threats, it is virtually impossible for us to entirely eliminate this risk. If any of the foregoing security incidents were to occur, our reputation may suffer, our competitive position may be diminished, customers may stop buying our products and services, we could face lawsuits and potential liability, and our financial performance could be negatively impacted.

*Increasing regulatory focus on privacy issues and expanding laws may impact our business or expose us to increased liability.*

Our strategy to digitize the Company involves increasing our use of cloud and web-based technologies and applications to leverage customer data. To accomplish this strategy, we must collect customer data, which may include personal data. Federal, state and foreign government privacy and data security laws apply to the treatment of personal data. Governments, the plaintiffs' bar, privacy advocates and customers have increased their focus on how companies collect, process, use, store, share and transmit personal data.

The General Data Protection Regulation ("GDPR") is applicable in all EU member states as of May 25, 2018, and replaces the current EU Data Protection Directive. The GDPR introduces new data protection requirements in the EU and substantial fines for non-compliance. The GDPR increases our responsibility and potential liability in relation to personal data, and we have and will continue to put in place additional processes and programs to demonstrate compliance. Compliance with these laws is costly and could delay or impede the development of new offerings. Any failure to comply with GDPR or other data privacy laws could lead to government enforcement actions and significant penalties. Further, any perceived privacy right violation could result in reputational harm, third-party claims, lawsuits or investigations. Additionally, we store customer information and content and if our customers fail to comply with contractual obligations or applicable laws, it could result in litigation or reputational harm to us.

GDPR, other new laws and self-regulatory codes 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. These requirements could impact demand for our products and services and result in more onerous contract obligations.

*We rely on third-parties to provide us with a number of operational and technical services; third-party security incidents could expose us to liability, harm our reputation, damage our competitiveness and adversely impact our financial performance.*

We rely on third-parties, such as Amazon Web Services, to provide us with operational and technical services. These third parties may have access to our systems, provide hosting services, or otherwise process data about us or our customers, employees, or partners. Any third party security incident could compromise the integrity of, or availability or result in the theft of, data. In addition, our operations, or the operations of our customers or partners, could be negatively affected in the event of a security breach, and could be subject to the loss or theft of confidential or proprietary information, including source code. Unauthorized access to data and other confidential or proprietary information may be obtained through break-ins, network breaches by unauthorized parties, employee theft or misuse, or other misconduct. If any of the foregoing were to occur, our reputation may suffer, our competitive position may be diminished, customers may buy fewer of our products and services, we could face lawsuits and potential liability, and our financial performance could be negatively impacted.

*Delays in service from third-party service providers could expose us to liability, harm our reputation, damage our competitiveness and adversely impact our financial performance.*

From time to time, we may rely on a single or limited number of suppliers, or upon suppliers in a single country, for the provision of various services and materials that we use in the operation of our business and production of our products. 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, 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, 2018 and 2017, approximately 72% and 70%, respectively, of our revenue was derived from indirect channel sales through distributors and resellers and we expect that the majority of our revenue will continue to be derived from indirect channel sales in the future. Our ability to effectively distribute our products depends in part upon the financial and business condition of our distributor and reseller network. Computer software distributors and resellers typically are not highly capitalized, have previously experienced difficulties during times of economic contraction and experienced difficulties during the past several years. We have processes to ensure that we assess the creditworthiness of distributors and resellers prior to our sales to them. In the past we have taken steps to support them, and may take additional steps in the future, such as extending credit terms and providing temporary discounts. These steps, if taken, could harm our financial results. If our distributors and resellers were to become insolvent, they would not be able to maintain their business and sales, or provide customer support services, which would negatively impact our business and revenue.

We rely significantly upon major distributors and resellers in both the U.S. and international regions, including the distributor Tech Data. Tech Data accounted for 35% and 30% of our total net revenue for the six months ended July 31, 2018 and July 31, 2017, respectively. Although we believe that we are not substantially dependent on Tech Data, if Tech Data were to experience a significant disruption with its business or if our relationship with Tech Data were to significantly deteriorate, it is possible that our ability to sell to end users would be, at least temporarily, negatively impacted. This could in turn negatively impact our financial results.

Over time, we have modified and will continue to modify aspects of our relationship with our distributors and resellers, such as their incentive programs, pricing to them and our distribution model to motivate and reward them for aligning their businesses with our strategy and business objectives. Changes in these relationships and underlying programs could negatively impact their business and harm our business. Further, our distributors and resellers may lose confidence in our business model transition, move to competitive products, or may not have the skills or ability to support customers under the subscription model. The loss of or a significant reduction in business with those distributors or resellers could harm our business. In particular, if one or more of such distributors or resellers were unable to meet their obligations with respect to accounts payable to us, we could be forced to write off such accounts and may be required to delay the recognition of revenue on future sales to these customers. These events could have a material adverse effect on our financial results.

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

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

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

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

• failure to achieve anticipated levels of customer acceptance of our business model transition, including the impact of the end of perpetual licenses and the introduction of our M2S program;

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

• changes in product mix, pricing pressure or changes in product pricing;

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

• the success of new business or sales initiatives;

• security breaches, related reputational harm, and potential financial penalties to customers and government entities;

- timing of additional investments in the development of our platform or deployment of our services;
- changes in revenue recognition or other accounting guidelines employed by us and/or established by the Financial Accounting Standards Board or other rule-making bodies;
- fluctuations in foreign currency exchange rates and the effectiveness of our hedging activity;
- failure to achieve and maintain cost reductions and productivity increases;
- dependence on and the timing of large transactions;
- changes in billings linearity;
- adjustments arising from ongoing or future tax examinations;
- the ability of governments around the world to adopt fiscal policies, meet their financial and debt obligations, and to finance infrastructure projects;
- lower renewals of our maintenance program;
- failure to expand our AutoCAD and AutoCAD LT customer base to related design products and services;
- our ability to rapidly adapt to technological and customer preference changes, including those related to cloud computing, mobile devices, new computing platforms, and 3D printing;
- the timing of the introduction of new products by us or our competitors;
- the financial and business condition of our reseller and distribution channels;
- - failure to accurately predict the impact of acquired businesses or to identify and realize the anticipated benefits of acquisitions, and successfully integrate such acquired businesses and technologies;
- perceived or actual technical or other problems with a product or combination of products;
- unexpected or negative outcomes of matters and expenses relating to litigation or regulatory inquiries;
- increases in cloud functionality-related expenses;
- timing of product releases and retirements;
- changes in tax laws or regulations, tax arrangements with foreign governments or accounting rules, such as increased use of fair value measures;
- changes in sales compensation practices;
- failure to effectively implement our copyright legalization programs, especially in developing countries;
- failure to achieve sufficient sell-through in our channels for new or existing products;



- renegotiation or termination of royalty or intellectual property arrangements;
- interruptions or terminations in the business of our consultants or third-party developers;
- the timing and degree of expected investments in growth and efficiency opportunities;
- failure to achieve continued success in technology advancements;
- catastrophic events or natural disasters;

- regulatory compliance costs;
- potential goodwill impairment charges related to prior acquisitions; and
- failure to appropriately estimate the scope of services under consulting arrangements.

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

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

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

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

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

- the inability to retain customers, key employees, vendors, distributors, business partners, and other entities associated with the acquired business;
- the potential that due diligence of the acquired business or product does not identify significant problems;
- exposure to litigation or other claims in connection with, or inheritance of claims or litigation risk as a result of, an acquisition, including but not limited to, claims from terminated employees, customers, or other third parties;
- the potential for incompatible business cultures;
- significantly higher than anticipated transaction or integration-related costs;
- potential additional exposure to fluctuations in currency exchange rates; and
- the potential impact on relationships with existing customers, vendors, and distributors as business partners as a result of acquiring another business.

We may not be successful in overcoming such risks, and such acquisitions and investments may negatively impact our business. In addition, such acquisitions and investments have in the past and may in the future contribute to potential fluctuations in our quarterly financial results. These fluctuations could arise from transaction-related costs and charges associated with eliminating redundant expenses or write-offs of impaired assets recorded in connection with acquisitions and investments. These costs or charges could negatively impact our financial results for a given period, cause quarter to quarter variability in our financial results or negatively impact our financial results for several future periods.

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

We derive a substantial portion of our net revenue from sales of licenses of a limited number of our products, including AutoCAD software, products based on AutoCAD, which include our collections that serve specific markets and products that are interoperable with AutoCAD. Any factor adversely affecting sales of these products, including the product release cycle,

market acceptance, product competition, performance and reliability, reputation, price competition, economic and market conditions and the availability of third-party applications, would likely harm our financial results. During the six months ended July 31, 2018, combined revenue from our AutoCAD and AutoCAD LT products, not including collections (formerly suites) having AutoCAD or AutoCAD LT as a component, represented 28% of total net revenue compared to 27% during the six months ended July 31, 2017.

*We are investing in resources to update and improve our information technology systems to digitize the Company and support our business model transition. Should our investments not succeed, or if delays or other issues with new or existing information 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 in order to meet the evolving requirements of our business and customers. In particular, our transition to cloud-based products and a subscription-only business model involves considerable investment in the development of technologies, as well as back-office systems for technical, financial, compliance and sales resources.

Such improvements are often complex, costly and time consuming. In addition, such improvements can be challenging to integrate with our existing technology systems, or may 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 customers, loss of revenue, errors in our accounting and financial reporting or damage to our reputation, all of which could compromise our business model transition.

*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.

*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, ARR, ARPS, earnings, subscriptions, or other key performance metrics;
- results and future projections related to our business model transition;
- quarterly variations in our or our competitors' results of operations;
- general socio-economic, political or market conditions;
- changes in estimates of future results or recommendations or confusion on the part of analysts and investors about the short-term and long-term impact to our business resulting from our business model transition;
- uncertainty about certain governments' abilities to repay debt or effect fiscal policy;
- the announcement of new products or product enhancements by us or our competitors;
- unusual events such as significant acquisitions, divestitures, regulatory actions, and litigation;
- changes in laws, rules, or regulations applicable to our business;
- outstanding debt service obligations; and
- other factors, including factors unrelated to our operating performance, such as instability affecting the economy or the operating performance of our competitors.

Significant changes in the price of our common stock could expose us to costly and time-consuming litigation. Historically, after periods of volatility in the market price of a company's securities, a company becomes more

susceptible to securities class action litigation. This type of litigation is often expensive and diverts management's attention and resources.

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

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

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

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

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

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

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

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

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

We are a U.S.-based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. Our effective tax rate is primarily based on our expected geographic mix of earnings, statutory rates, intercompany arrangements, including the manner in which we develop, value and license our intellectual property, and enacted tax rules.



Significant judgment is required in determining our effective tax rate and in evaluating our tax positions on a worldwide basis. While we believe our tax positions, including intercompany transfer pricing policies, are consistent with the tax laws in the jurisdictions in which we conduct our business, it is possible that these positions may be overturned by jurisdictional tax authorities and may have a significant impact on our effective tax rate.

In connection with the Company's closure of certain offices and reduction of workforces worldwide, the Company is in discussions with tax authorities regarding the closure of offices and the redeployment/transfer of assets. At this time the Company cannot estimate the tax implications of these discussions.

Tax laws are dynamic and subject to change as new laws are passed and new interpretations of the law are issued or applied. For example, the U.S. government enacted significant tax law changes in December 2017, the Tax Act, which impacts our tax obligations and effective tax rate beginning in our fiscal 2018 tax year. Increasingly, governmental tax authorities are

scrutinizing corporate tax strategies. Many countries in the European Union, as well as 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.

*Uncertainties in the interpretation and application of the Tax Act could materially affect our tax obligations and effective tax rate.*

The Tax Act provides broad and significant changes to the U.S. tax code and how the U.S. imposes income tax on multinational corporations. Due to the complexity and varying interpretations of the Tax Act, the U.S. Department of the Treasury and other standard-setting bodies may issue regulations and interpretative guidance that could significantly impact how we will apply the law and our results of operations from the Tax Act.

The Tax Act requires complex computations to be performed that were not previously provided for in the U.S. tax law. These computations require significant judgments to be made regarding the interpretation of the provisions within the Tax Act along with preparation and analysis of information not previously required. SAB 118 allows for the Company to record provisional amounts until a final assessment can be made within a period not to exceed one year from the date of enactment, which would be during our quarter ending October 31, 2018. As a result, we recorded a provisional estimate on the effect of the Tax Act in our January 31, 2018, financial statements based on our initial assessment. As additional regulatory guidance is issued and we continue to collect and analyze necessary data, we may make adjustments to provisional amounts previously recorded. We do not anticipate these adjustments to materially impact our provision for income taxes in the period in which an adjustment is made since we have provided for a full valuation allowance against our provision in the U.S.

*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.

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

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we are required to furnish a report by our management on our internal control over financial reporting. The report contains, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management.

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

adverse effect on our business and stock price.

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

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

reasonable under the circumstances as of the date of the consolidated financial statements. Actual results could differ materially from our estimates, and such differences could significantly impact our financial results.

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

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

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

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

Our business strategy has historically depended in part on our relationships with third-party developers who provide products that expand the functionality of our design software. Some developers may elect to support other products or may experience disruption in product development and delivery cycles or financial pressure during periods of economic downturn. In particular markets, such disruptions have in the past, and would likely in the future, negatively impact these third-party developers and end users, which could harm our business.

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

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

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

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

Our business is highly automated and relies extensively on the availability of our network and data center infrastructure, our internal technology systems and our websites. We also rely on hosted computer services from third parties for services that we provide to our customers and computer operations for our internal use. The failure of our systems or hosted computer services due to a catastrophic event, such as an earthquake, fire, flood, tsunami, weather

event, telecommunications failure, power failure, cyber attack, terrorism, or war, could adversely impact our business, financial results and financial condition. We have developed disaster recovery plans and maintain backup systems in order to reduce the potential impact of a catastrophic event, however there can be no assurance that these plans and systems would enable us to return to normal business operations. In addition, any such event could negatively impact a country or region in which we sell our products. This could in turn decrease that country's or region's demand for our products, thereby negatively impacting our financial results.

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

Our long-lived assets are tested for impairment if indicators of impairment exist. If impairment testing shows that the carrying value of our long-lived assets exceeds their estimated fair values, we would be required to record a non-cash

impairment charge, which would decrease the carrying value of our long-lived assets, as the case may be, and our results of operations would be adversely affected. Our deferred tax assets include net operating loss, amortizable tax assets and tax credit carryforwards that can be used to offset taxable income and reduce income taxes payable in future periods. Each quarter, we assess the need for a valuation allowance, considering both positive and negative evidence to determine whether all or a portion of the deferred tax assets are more likely than not to be realized. In fiscal 2016, we determined that it was more likely than not that the Company would not realize our U.S. deferred tax assets and established a valuation allowance against our U.S. deferred tax assets. We continued to have a full valuation allowance against our U.S. deferred assets in fiscal 2019. Changes in the amount of the valuation allowance could result in a material non-cash expense or benefit in the period in which the valuation allowance is adjusted and our results of operations could be materially affected. We will continue to perform these tests and any future adjustments may have a material effect on our financial condition and results of operations.

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

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

We also have a \$400.0 million revolving credit facility. As of July 31, 2018, we had no outstanding borrowings on the line of credit. Although we have no current plans to borrow under this credit facility, we may use the proceeds of any future borrowing for general corporate purposes, or for future acquisitions or expansion of our business. Our existing and future levels of indebtedness may adversely affect our financial condition and future financial results by, among other things:

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

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

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

This credit agreement contains customary covenants that could restrict the imposition of liens on Autodesk's assets, and restrict the Company's ability to incur additional indebtedness or make dispositions of assets if Autodesk fails to maintain the financial covenants. The financial covenants consist of a maximum debt to total cash ratio, a fixed charge coverage ratio through October 31, 2018, and, after October 31, 2018, a minimum interest coverage ratio.

We are required to comply with the covenants set forth in our unsecured notes and revolving credit facility. Our ability to comply with these covenants may be affected by events beyond our control. If we breach any of the covenants and do not obtain a waiver from the note holders or lenders, then, subject to applicable cure periods, we would not be able to incur additional indebtedness under the credit facility and 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**

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.

On July 3, 2018, in connection with our acquisition of Assemble Systems, Inc. ("Assemble"), we issued 340,769 shares of our common stock to certain former holders of capital stock of Assemble (the "Assemble Stock Issuance") as partial consideration for the acquisition. The issuance of shares of our common stock in the Assemble Stock Issuance was not

registered under the Securities Act of 1933, as amended (the "Securities Act"). Such shares were issued in a private placement exempt from the registration requirements of the Securities Act in reliance on the exemptions set forth in Section 4(a)(2) of the Securities Act and Rule 506 under Regulation D.

See Note 8, "Acquisitions," in the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Report for further information on our acquisition of Assemble.

### **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.

| <u>Exhibit<br/>No.</u> | Description   |
|------------------------|---|
| 3.1                    | <u>Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.1 filed with the Registrant's Current Report on Form 8-K filed on June 15, 2018)</u>   |
| 10.1                   | <u>Letter Amendment No. 2, dated as of June 27, 2018, to the Amended and Restated Credit Agreement, dated as of May 29, 2015, by and among the Registrant, the lenders from time to time party thereto and Citibank, N.A. as agent (incorporated by reference to Item 10.1 of the Registrant's Current Report on Form 8-K filed on June 29, 2018)</u> |
| 10.2*                  | <u>Registrant's 2012 Employee Stock Plan, as amended and restated effective as of June 12, 2018 (filed herewith)</u>  |
| 10.3*                  | <u>Registrant's 1998 Employee Qualified Stock Purchase Plan, as amended and restated effective as of June 12, 2018 (filed herewith)</u>   |
| 31.1                   | <u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934</u>   |
| 31.2                   | <u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934</u>   |
| 32.1 †                 | <u>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</u>  |
| 101.INS ††             | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document  |
| 101.SCH †              | XBRL Taxonomy Extension Schema  |
| 101.CAL †              | XBRL Taxonomy Extension Calculation Linkbase  |
| 101.DEF †              | XBRL Taxonomy Definition Linkbase   |
| 101.LAB †              | XBRL Taxonomy Extension Label Linkbase  |
| 101.PRE ††             | XBRL Taxonomy Extension Presentation Linkbase   |

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

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

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

## **SIGNATURES**

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

Dated: August 30, 2018

AUTODESK, INC.  
(Registrant)

/s/ R. SCOTT HERREN  
**R. Scott Herren**  
**Senior Vice President and Chief Financial Officer**  
**(Principal Financial Officer and Principal Accounting Officer)**