AUTODESK INC
Form 10-Q
December 01, 2016

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 October 31, 2016
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 0-14338

AUTODESK, INC.
(Exact name of registrant as specified in its charter)

Delaware	94-2819853
(State or other jurisdiction of 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 x No ¨

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

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

Non-accelerated filer ¨ Smaller reporting company ¨

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

As of November 22, 2016, registrant had outstanding 222,556,352 shares of common stock.

AUTODESK, INC. FORM 10-Q
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AUTODESK, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)
(Unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2016	2015	2016	2015
Net revenue:				
Subscription	$319.5	$318.9	$967.5	$957.7
License and other	170.1	280.9	584.7	898.1
Total net revenue	489.6	599.8	1,552.2	1,855.8
Cost of revenue:				
Cost of subscription revenue	35.1	38.0	113.1	116.7
Cost of license and other revenue	46.4	53.0	145.9	159.1
Total cost of revenue	81.5	91.0	259.0	275.8
Gross profit	408.1	508.8	1,293.2	1,580.0
Operating expenses:				
Marketing and sales	255.0	243.4	738.9	738.1
Research and development	192.6	197.9	579.1	585.5
General and administrative	70.4	74.2	213.7	220.2
Amortization of purchased intangibles	6.8	8.1	22.5	25.2
Restructuring charges and other facility exit costs, net	3.2	—	71.5	—
Total operating expenses	528.0	523.6	1,625.7	1,569.0
(Loss) income from operations	(119.9)	(14.8)	(332.5)	11.0
Interest and other expense, net	(9.4)	(7.7)	(23.1)	(10.8)
(Loss) income before income taxes	(129.3)	(22.5)	(355.6)	0.2
Provision for income taxes	(13.5)	(21.3)	(53.1)	(293.5)
Net loss	$(142.8)	$(43.8)	$(408.7)	$(293.3)
Basic net loss per share	$(0.64)	$(0.19)	$(1.83)	$(1.29)
Diluted net loss per share	$(0.64)	$(0.19)	$(1.83)	$(1.29)
Weighted average shares used in computing basic net loss per share	222.3	225.3	223.3	226.5
Weighted average shares used in computing diluted net loss per share	222.3	225.3	223.3	226.5

See accompanying Notes to Condensed Consolidated Financial Statements.

AUTODESK, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In millions)
(Unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2016	2015	2016	2015
Net loss	$(142.8)	$(43.8)	$(408.7)	$(293.3)
Other comprehensive loss, net of reclassifications:				
Net loss on derivative instruments (net of tax effect of $0.2, $0.0, ($0.6) and ($0.7), respectively)	(0.7)	(12.1)	(11.7)	(22.2)
Change in net unrealized (loss) gain on available-for-sale securities (net of tax effect of $0.0, $0.0, ($0.6) and $0.2, respectively)	(1.6)	(0.4)	1.8	(1.6)
Change in defined benefit pension items (net of tax effect of $0.0, $0.0, ($0.2) and $0.0, respectively)	0.3	0.3	0.6	1.3
Net change in cumulative foreign currency translation loss (net of tax effect of ($0.5), ($4.5), ($0.5) and $0.0, respectively)	(55.7)	(4.0)	(57.1)	(10.7)
Total other comprehensive loss	(57.7)	(16.2)	(66.4)	(33.2)
Total comprehensive loss	$(200.5)	$(60.0)	$(475.1)	$(326.5)

See accompanying Notes to Condensed Consolidated Financial Statements.

4

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

	October 31, 2016	January 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$1,436.5	$1,353.0
Marketable securities	532.4	897.9
Accounts receivable, net	259.8	653.6
Prepaid expenses and other current assets	103.4	88.6
Total current assets	2,332.1	2,993.1
Marketable securities	455.0	532.3
Computer equipment, software, furniture and leasehold improvements, net	168.3	169.3
Developed technologies, net	53.9	70.8
Goodwill	1,557.3	1,535.0
Deferred income taxes, net	49.6	9.2
Other assets	213.0	205.6
Total assets	$4,829.2	$5,515.3
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$102.8	$119.9
Accrued compensation	187.6	243.3
Accrued income taxes	85.9	29.4
Deferred revenue	1,099.1	1,068.9
Other accrued liabilities	122.2	129.5
Total current liabilities	1,597.6	1,591.0
Long-term deferred revenue	433.9	450.3
Long-term income taxes payable	40.0	161.4
Long-term deferred income taxes	75.9	67.7
Long-term notes payable, net	1,489.9	1,487.7
Other liabilities	131.3	137.6
Stockholders' equity:		
Preferred stock	—	—
Common stock and additional paid-in capital	1,882.8	1,821.5
Accumulated other comprehensive loss	(187.5)	(121.1)
Accumulated deficit	(634.7)	(80.8)
Total stockholders' equity	1,060.6	1,619.6
Total liabilities and stockholders' equity	$4,829.2	$5,515.3

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended October 31, 2016	2015
Operating activities:		
Net loss	$(408.7)	$(293.3)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization and accretion	104.5	109.7
Stock-based compensation expense	162.5	141.1
Deferred income taxes	(39.6)	221.9
Restructuring charges and other facility exit costs, net	71.5	—
Other operating activities	3.4	(10.6)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	393.8	97.4
Prepaid expenses and other current assets	(12.7)	(5.5)
Accounts payable and accrued liabilities	(71.9)	(75.1)
Deferred revenue	15.6	54.5
Accrued income taxes	(64.3)	4.0
Net cash provided by operating activities	154.1	244.1
Investing activities:		
Purchases of marketable securities	(1,106.4)	(1,827.9)
Sales of marketable securities	544.7	263.0
Maturities of marketable securities	1,012.6	970.7
Capital expenditures	(65.1)	(41.8)
Acquisitions, net of cash acquired	(85.2)	(104.6)
Other investing activities	(14.8)	(15.5)
Net cash provided by (used in) investing activities	285.8	(756.1)
Financing activities:		
Proceeds from issuance of common stock, net of issuance costs	102.2	99.3
Taxes paid related to net share settlement of equity awards	(58.9)	(42.3)
Repurchases of common stock	(397.6)	(357.7)
Proceeds from debt, net of discount	—	748.3
Other financing activities	—	(6.3)
Net cash (used in) provided by financing activities	(354.3)	441.3
Effect of exchange rate changes on cash and cash equivalents	(2.1)	(2.4)
Net increase (decrease) in cash and cash equivalents	83.5	(73.1)
Cash and cash equivalents at beginning of period	1,353.0	1,410.6
Cash and cash equivalents at end of period	$1,436.5	$1,337.5

See accompanying Notes to Condensed Consolidated Financial Statements.

AUTODESK, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tables in millions, except share and per share data, or as otherwise noted)

1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of Autodesk, Inc. (“Autodesk,” “we,” “us,” “our,” or the “Company”) as of October 31, 2016, and for the three and nine months ended October 31, 2016 and 2015, have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information along with the instructions to Form 10-Q and Article 10 of Securities and Exchange Commission (“SEC”) Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements. In management’s opinion, Autodesk made all adjustments (consisting of normal, recurring and non-recurring adjustments) during the quarter that were considered necessary for the fair statement of the financial position and operating results of the Company. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates. In addition, the results of operations for the three and nine months ended October 31, 2016 are not necessarily indicative of the results for the entire fiscal year ending January 31, 2017, or for any other period. There have been no material changes, 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, 2016. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and related notes, together with management’s discussion and analysis of financial position and results of operations contained in Autodesk’s Annual Report on Form 10-K for the fiscal year ended January 31, 2016, filed on March 23, 2016.

Segments

Through the second quarter of fiscal 2017, Autodesk had four operating and reportable segments: Architecture, Engineering, and Construction ("AEC"), Manufacturing ("MFG"), Platform Solutions and Emerging Business ("PSEB"), and Media and Entertainment ("M&E"). During the third quarter of fiscal 2017, as a result of changes in our organizational structure from the business model transition and various other factors described further in Note 18, "Segments," Autodesk has determined the Company operates as a single operating segment and single reporting unit. However, we will continue to provide disaggregation of revenue by product family within Note 18, "Segments."

Prior Period Adjustments

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

Autodesk performed the analysis required by Staff Accounting Bulletin No. 99, Materiality, to evaluate the materiality of the error, quantitatively and qualitatively, and concluded it was not material to the Company’s Condensed Consolidated Financial Statements as of July 31, 2015 and for the three and six month periods ended July 31, 2015; however, in light of the significance of a correction of the error to the results for the three months ended October 31, 2015, Autodesk chose to correct the error by revising the previously reported results for the three and six months ended July 31, 2015. See Note 6, "Income Tax," in the Notes to Condensed Consolidated Financial Statements for further discussion.

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

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

2. Recently Issued Accounting Standards

With the exception of those discussed below, there have been no recent changes in accounting pronouncements issued by the Financial Accounting Standards Board (“FASB”) or adopted by the Company during the nine months ended October 31, 2016, that are of significance, or potential significance, to the Company.

Accounting Standards Adopted

In March 2016, the FASB issued Accounting Standards Update No. 2016-09 ("ASU 2016-09") regarding ASC Topic 718, “Improvements to Employee Share-Based Payment Accounting.” The new guidance requires excess tax benefits and tax deficiencies to be recorded in the income statement when the awards vest or are settled. In addition, cash flows related to excess tax benefits will no longer be separately classified as a financing activity apart from other income tax cash flows. The standard also increases the amount of shares an employer can withhold for tax purposes without triggering liability accounting, clarifies that all cash payments made on an employee's behalf for withheld shares should be presented as a financing activity in the statements of cash flows, and provides an entity-wide accounting policy election to account for forfeitures as they occur.

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

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

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

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

Condensed Consolidated Balance Sheets

	As Reported	ASU 2016-09 Adoption Adjustments:	As Adjusted
(in millions)			

	April 30, 2016	February 1, 2016 Accumulated Deficit	For The Three Months Ended April 30, 2016	April 30, 2016
Long-term income taxes payable	$ 153.8	$ (116.5)	$ —	$ 37.3
Common stock and additional paid-in capital	1,865.6	6.9	(5.3)	1,867.2
Accumulated deficit	$ (308.2)	$ 109.6	$ 5.3	$ (193.3)

Condensed Consolidated Statements of Operations

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

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

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

Recently Issued Accounting Standards

In October 2016, FASB issued Accounting Standards Update No. 2016-16 ("ASU 2016-16"), “Income Taxes: Intra-Entity Transfers of Assets Other than Inventory” which requires that entities recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. The amendments will be effective for Autodesk's fiscal year beginning February 1, 2018 unless Autodesk elects early adoption. The new guidance is required to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Autodesk is currently evaluating the accounting, transition, and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13 ("ASU 2016-13") regarding ASC Topic 326, "Financial Instruments - Credit Losses," which modifies the measurement of expected credit losses of certain financial instruments. The amendments will be effective for Autodesk's fiscal year beginning February 1, 2019 unless Autodesk elects early adoption. Autodesk does not believe ASU 2016-13 will have a material impact on its consolidated financial statements.

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

In January 2016, the FASB issued Accounting Standards Update No. 2016-01 ("ASU 2016-01") regarding ASC Topic 825-10, "Financial Instruments - Overall." The amendments address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments, and require equity securities to be measured at fair value with changes in fair value recognized through net income. The amendments also simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment for impairment quarterly at each reporting period. The amendments in ASU 2016-01 will be effective for Autodesk's fiscal year beginning February 1, 2018. An entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption, with prospective adoption of the amendments related to equity securities without readily determinable fair values existing as of the date of adoption. Autodesk does not believe ASU 2016-01 will have a material impact on its consolidated financial statements.

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

Autodesk plans to adopt ASU 2014-09 as of the deferred effective date, which represents Autodesk’s fiscal year beginning February 1, 2018. Autodesk is currently evaluating the accounting and disclosure requirements of the standard. The Company's preliminary assessment is that there should be no material change in the timing and amount of the recognition of revenue for the majority of the Company's desktop subscription offerings. This preliminary assessment is based on the conclusion that the related software and cloud services are considered highly interrelated and represent a single combined performance obligation that should be recognized over time. Autodesk is reviewing its other offerings, including enterprise arrangements, and anticipates providing its preliminary assessment on the impact of adoption and transition method in its Form 10-K for this fiscal year ended January 31, 2017.

3. Concentration of Credit Risk

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

Total sales to the distributor Tech Data Corporation and its global affiliates (“Tech Data”) accounted for 31% and 30% of Autodesk’s total net revenue for the three and nine months ended October 31, 2016, respectively, and 26% and 25% for the three and nine months ended October 31, 2015, 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 25% and 22% of trade accounts receivable at October 31, 2016 and January 31, 2016, respectively.

10

4. Financial Instruments

The following tables summarize the Company's financial instruments' amortized cost, gross unrealized gains, gross unrealized losses, and fair value by significant investment category as of October 31, 2016 and January 31, 2016:

	October 31, 2016						
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair Value	Level 1	Level 2	Level 3
Cash equivalents (1):							
Agency bonds	$7.5	$ —	$ —	$7.5	$7.5	$—	$—
Certificates of deposit	101.2	—	—	101.2	101.2	—	—
Commercial paper	11.8	—	—	11.8	—	11.8	—
Custody cash deposit	19.5	—	—	19.5	19.5	—	—
Money market funds	162.3	—	—	162.3	—	162.3	—
U.S. government securities	631.5	—	—	631.5	631.5	—	—
Marketable securities:							
Short-term available-for-sale							
Agency bonds	15.8	—	—	15.8	15.8	—	—
Asset backed securities	22.2	—	—	22.2	—	22.2	—
Certificates of deposit	140.7	0.4	—	141.1	141.1	—	—
Commercial paper	51.5	—	—	51.5	—	51.5	—
Corporate bonds	225.7	0.1	(0.1)	225.7	225.7	—	—
Municipal bonds	7.1	—	—	7.1	7.1	—	—
Sovereign debt	11.3	—	—	11.3	—	11.3	—
U.S. government securities	12.1	—	—	12.1	12.1	—	—
Short-term trading securities							
Mutual funds	44.2	1.4	—	45.6	45.6	—	—
Long-term available-for-sale							
Agency bonds	55.5	0.1	(0.1)	55.5	55.5	—	—
Asset backed securities	58.3	0.1	—	58.4	—	58.4	—
Certificates of deposit	1.8	—	—	1.8	1.8	—	—
Corporate bonds	244.1	0.9	(0.2)	244.8	244.8	—	—
Municipal bonds	8.5	—	—	8.5	8.5	—	—
Sovereign debt	12.6	—	—	12.6	—	12.6	—
U.S. government securities	73.5	0.1	(0.2)	73.4	73.4	—	—
Convertible debt securities (2)	6.3	2.4	(1.3)	7.4	—	—	7.4
Derivative contracts (3)	3.0	9.6	(10.3)	2.3	—	0.7	1.6
Total	$1,928.0	$ 15.1	$ (12.2)	$1,930.9	$1,591.1	$330.8	$ 9.0

(1) Included in “Cash and cash equivalents” in the accompanying Condensed Consolidated Balance Sheets.
(2) Considered “available-for-sale” and included in “Other assets” in the accompanying Condensed Consolidated Balance Sheets.
(3) Included in “Prepaid expenses and other current assets,” “Other assets,” or “Other accrued liabilities” in the accompanying Condensed Consolidated Balance Sheets.

11

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

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

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

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

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

Autodesk applies fair value accounting for certain financial assets and liabilities, which consist of cash equivalents, marketable securities and other financial instruments, that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and (Level 3) unobservable inputs for which there is little or no market data, which require Autodesk to develop its own assumptions. When determining fair value, Autodesk uses observable market data and relies on unobservable inputs only when observable market data is not available. There have been no transfers between fair value measurement levels during the three and nine months ended October 31, 2016.

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

A reconciliation of the change in Autodesk’s Level 3 items for the nine months ended October 31, 2016 follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Derivative Contracts	Convertible Debt Securities	Total
Balances, January 31, 2016	$ 0.3	$ 3.4	$ 3.7
Purchases	1.0	4.0	5.0
Gains (losses) included in earnings	0.3	(0.2)	0.1
Gains included in OCI	—	0.2	0.2
Balances, October 31, 2016	$ 1.6	$ 7.4	$ 9.0

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

	October 31, 2016	
	Cost	Fair Value
Due within 1 year	$490.2	$ 491.6
Due in 1 year through 5 years	448.3	449.1
Due in 5 years through 10 years	8.5	8.5
Total	$947.0	$ 949.2

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

As of October 31, 2016 and January 31, 2016, Autodesk had $116.6 million and $104.3 million, respectively, in direct investments in privately held companies accounted for under the cost method, which are periodically assessed for other-than-temporary impairment. Other than the amounts disclosed in the following paragraph, Autodesk does not intend to sell these cost method investments and it is not more likely than not that Autodesk will be required to sell the investment before recovery of the amortized cost bases, which may be maturity. Therefore, Autodesk does not consider those investments to be other-than-temporarily impaired at October 31, 2016. Autodesk estimates fair value of its cost method investments considering available information such as pricing in recent rounds of financing, current cash positions, earnings and cash flow forecasts, recent operational performance and any other readily available market data.

If Autodesk determines that an other-than-temporary impairment has occurred, Autodesk writes down the investment to its fair value. During the nine months ended October 31, 2016 and 2015, Autodesk recorded $0.3 million and $0.2 million, respectively, in other-than-temporary impairments on its privately held equity investments.

The sales or redemptions of “available-for-sale securities” during the nine months ended October 31, 2016 and 2015 resulted in gains of $0.7 million and $0.3 million, respectively. Gains and losses resulting from the sale or redemption of "available-for-sale securities" are recorded in “Interest and other expense, net” on the Company's Condensed Consolidated Statements of Operations.

Proceeds from the sale and maturity of marketable securities for the nine months ended October 31, 2016 and 2015 were $1,557.3 million and $1,233.7 million, respectively.

Derivative Financial Instruments

Under its risk management strategy, Autodesk uses derivative instruments to manage its short-term exposures to fluctuations in foreign currency exchange rates which exist as part of ongoing business operations. Autodesk's general practice is to hedge a portion of transaction exposures denominated in euros, Japanese yen, Swiss francs, British pounds, Canadian dollars and Australian dollars. These instruments have maturities between one and twelve months in the future. Autodesk does not enter into derivative instrument transactions for trading or speculative purposes.

The bank counterparties to the derivative contracts potentially expose Autodesk to credit-related losses in the event of their nonperformance. However, to mitigate that risk, Autodesk only contracts with counterparties who meet the Company's minimum requirements under its counterparty risk assessment process. Autodesk monitors ratings, credit spreads and potential downgrades on at least a quarterly basis. Based on Autodesk's ongoing assessment of counterparty risk, the Company will adjust its exposure to various counterparties. Autodesk generally enters into master netting arrangements, which reduce credit risk by permitting net settlement of transactions with the same counterparty. However, Autodesk does not have any master netting arrangements in place with collateral features.

Foreign currency contracts designated as cash flow hedges

Autodesk uses foreign currency contracts to reduce the exchange rate impact on a portion of the net revenue or operating expense of certain anticipated transactions. These contracts are designated and documented as cash flow hedges. The effectiveness of the cash flow hedge contracts is assessed quarterly using regression analysis as well as other timing and probability criteria. To receive cash flow hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedge and the hedges are expected to be highly effective in offsetting changes to future cash flows on hedged transactions. The gross gains and losses on these hedges are included in “Accumulated other comprehensive loss” and are reclassified into earnings at the time the forecasted revenue or expense is recognized. In the event the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, Autodesk reclassifies the gain or loss on the related cash flow hedge from “Accumulated other comprehensive loss” to “Interest and other expense, net” in the Company's Condensed Consolidated Financial Statements at that time.

The net notional amounts of these contracts are presented net settled and were $530.4 million at October 31, 2016 and $142.4 million at January 31, 2016. Outstanding contracts are recognized as either assets or liabilities on the balance sheet at fair value. The majority of the net gain of $4.0 million remaining in “Accumulated other comprehensive loss” as of October 31, 2016 is expected to be recognized into earnings within the next twelve months.

Derivatives not designated as hedging instruments

Autodesk uses foreign currency contracts that are not designated as hedging instruments to reduce the exchange rate risk associated primarily with foreign currency denominated receivables and payables. These forward contracts are marked-to-market at the end of each fiscal quarter with gains and losses recognized as “Interest and other expense, net.” These derivative instruments do not subject the Company to material balance sheet risk due to exchange rate movements because gains and losses on these derivative instruments are intended to offset the gains or losses resulting from the settlement of the underlying foreign currency denominated receivables and payables. The net notional amounts of these foreign currency contracts are presented net settled and were $7.8 million at October 31, 2016 and $231.6 million at January 31, 2016.

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

Fair Value of Derivative Instruments

The fair values of derivative instruments in Autodesk's Condensed Consolidated Balance Sheets were as follows as of October 31, 2016 and January 31, 2016:

	Balance Sheet Location	Fair Value at October 31, 2016	January 31, 2016
Derivative Assets			
Foreign currency contracts designated as cash flow hedges	Prepaid expenses and other current assets	$6.9	$ 3.4
Derivatives not designated as hedging instruments	Prepaid expenses and other current assets and Other assets	4.2	4.9
Total derivative assets		$11.1	$ 8.3
Derivative Liabilities			
Foreign currency contracts designated as cash flow hedges	Other accrued liabilities	$5.4	$ 3.4
Derivatives not designated as hedging instruments	Other accrued liabilities	3.4	3.0
Total derivative liabilities		$8.8	$ 6.4

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

	Foreign Currency Contracts Three Months Ended October 31, 2016	2015	Nine Months Ended October 31, 2016	2015
Amount of gain (loss) recognized in accumulated other comprehensive income on derivatives (effective portion)	$1.8	$(5.0)	$(3.1)	$1.7
Amount and location of gain (loss) reclassified from accumulated other comprehensive income into income (effective portion)				
Net revenue	$1.0	$9.5	$8.4	$31.8
Operating expenses	1.5	(2.4)	0.2	(7.9)
Total	$2.5	$7.1	$8.6	$23.9
Amount and location of loss recognized in income on derivatives (ineffective portion and amount excluded from effectiveness testing)				
Interest and other expense, net	$(0.1)	$(0.2)	$(0.5)	$(0.5)

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

	Three Months Ended October 31, 2016	2015	Nine Months Ended October 31, 2016	2015

Amount and location of loss recognized in income on derivatives				
Interest and other expense, net	$(1.4)	$(2.5)	$(12.3)	$(1.8)

15

5. Stock-based Compensation Expense

Restricted Stock Units:

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

	Unvested Restricted Stock Units	Weighted average grant date fair value per share
	(in thousands)	
Unvested restricted stock units at January 31, 2016	7,739.6	$ 51.80
Granted	3,661.7	63.77
Vested	(2,848.8)	50.46
Canceled/Forfeited	(609.6)	52.53
Performance Adjustment (1)	(29.7)	63.81
Unvested restricted stock units at October 31, 2016	7,913.2	$ 58.41

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

The fair value of the shares vested during the nine months ended October 31, 2016 and 2015 was $180.3 million and $156.6 million, respectively.

During the nine months ended October 31, 2016, Autodesk granted 3.2 million restricted stock units. Autodesk recorded stock-based compensation expense related to restricted stock units of $45.2 million and $37.9 million during the three months ended October 31, 2016 and 2015, respectively. Autodesk recorded stock-based compensation expense related to restricted stock units of $125.5 million and $103.7 million during the nine months ended October 31, 2016 and 2015, respectively.

During the nine months ended October 31, 2016, Autodesk granted 0.4 million performance stock units (“PSUs”) for which the ultimate number of shares earned is determined based on the achievement of performance criteria at the end of the stated service and performance period. The performance criteria for these grants are based upon net new model subscription additions, new model Annualized Recurring Revenue ("ARR"), non-GAAP total spend, and total subscription renewal rate goals ("FY17 performance criteria") adopted by the Compensation and Human Resource Committee, as well as total stockholder return compared against companies in the S&P Computer Software Select Index (“Relative TSR”). Each PSU covers a three-year period:

- Up to one third of the PSUs may vest following year one, depending upon the achievement of the FY17 performance criteria as well as 1-year Relative TSR (covering year one).
- Up to one third of the PSUs may vest following year two, depending upon the achievement of the performance criteria for year two as well as 2-year Relative TSR (covering years one and two).
- Up to one third of the PSUs may vest following year three, depending upon the achievement of the performance criteria for year three as well as 3-year Relative TSR (covering years one, two and three).

PSUs are not considered outstanding stock at the time of grant, as the holders of these units are not entitled to any of the rights of a stockholder, including voting rights. Autodesk has determined the grant date fair value for these awards using a Monte Carlo simulation model since the awards are also subject to a market condition. The fair value of the PSUs is expensed using the accelerated attribution over the vesting period. Autodesk recorded stock-based compensation expense related to PSUs of $4.9 million and $5.7 million for the three months ended October 31, 2016 and 2015, respectively. Autodesk recorded stock-based compensation expense related to PSUs of $17.1 million and $17.2 million for the nine months ended October 31, 2016 and 2015, respectively.

1998 Employee Qualified Stock Purchase Plan (“ESPP”)

Under Autodesk’s ESPP, which was approved by stockholders in 1998, eligible employees may purchase shares of Autodesk’s common stock at their discretion using up to 15% of their eligible compensation, subject to certain limitations, at

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

Autodesk issued 1.1 million and 1.0 million shares under the ESPP during the three months ended October 31, 2016 and 2015, respectively, with an average price of $37.36 and $35.59 per share. The weighted average grant date fair value of awards granted under the ESPP was $20.75 and $11.91 during the three months ended October 31, 2016 and 2015, respectively, calculated as of the award grant date using the Black-Scholes Merton (“BSM") option pricing model.

Autodesk issued 2.3 million and 2.1 million shares under the ESPP during the nine months ended October 31, 2016 and 2015, respectively, with an average price of $36.99 and $36.29 per share. The weighted average grant date fair value of awards granted under the ESPP was $19.20 and $11.85 during the nine months ended October 31, 2016 and 2015, respectively, in each case, calculated as of the award grant date using the BSM option pricing model.

Stock-based Compensation Expense

The following table summarizes stock-based compensation expense for the three and nine months ended October 31, 2016 and 2015, respectively, as follows:

	Three Months Ended October 31,	
	2016	2015
Cost of subscription	$1.7	$1.5
Cost of license and other revenue	1.8	1.7
Marketing and sales	24.2	22.3
Research and development	20.9	17.5
General and administrative	8.0	7.2
Stock-based compensation expense related to stock awards and ESPP purchases, net of tax	$56.6	$50.2

	Nine Months Ended October 31,	
	2016	2015
Cost of subscription	$5.2	$4.1
Cost of license and other revenue	5.1	4.4
Marketing and sales	69.0	61.3
Research and development	60.0	49.9
General and administrative	23.2	21.4
Stock-based compensation expense related to stock awards and ESPP purchases, net of tax	$162.5	$141.1

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 utilizes multiple input variables to estimate the probability that market conditions will be achieved. Autodesk uses the following assumptions to estimate the fair value of stock-based awards:

	Three Months Ended October 31, 2016		Three Months Ended October 31, 2015	
	Performance Stock Unit (1)	ESPP	Performance Stock Unit (1)	ESPP
Range of expected volatilities	N/A	31.0 - 33.9%	N/A	28.6 - 28.9%
Range of expected lives (in years)	N/A	0.5 - 2.0	N/A	0.5 - 2.0
Expected dividends	N/A	—%	N/A	—%
Range of risk-free interest rates	N/A	0.5 - 0.8%	N/A	0.2 - 0.7%
	Nine Months Ended October 31, 2016		Nine Months Ended October 31, 2015	
	Performance Stock Unit	ESPP	Performance Stock Unit	ESPP
Range of expected volatilities	38.4 - 38.6%	30.0 - 40.2%	27.3%	27.7 - 28.9%
Range of expected lives (in years)	N/A	0.5 - 2.0	N/A	0.5 - 2.0
Expected dividends	—%	—%	—%	—%
Range of risk-free interest rates	0.6 - 0.7%	0.5 - 0.9%	0.2%	0.1 - 0.7%

(1) Autodesk did not grant PSUs in the three months ended October 31, 2016 and 2015 that were subject to market conditions.

Autodesk estimates expected volatility for stock-based awards based on the average of the following two measures: (1) a measure of historical volatility in the trading market for the Company's common stock, and (2) the implied volatility of traded forward call options to purchase shares of the Company's common stock. The expected volatility for PSUs subject to market conditions includes the expected volatility of Autodesk's peer companies within the S&P Computer Software Select Index.

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

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

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

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

6. Income Tax

Autodesk's income tax expense was $13.5 million and $21.3 million for the three months ended October 31, 2016 and 2015, respectively, relative to a pre-tax loss of $129.3 million and pre-tax income of $22.5 million, respectively, for the same periods. Autodesk's income tax expense was $53.1 million and $293.5 million for the nine months ended October 31, 2016 and 2015, respectively, relative to a pre-tax loss of $355.6 million and pre-tax income of $0.2

million, respectively, for the same periods. The decrease in income tax expense was primarily due to the valuation allowance that was established during the three months ended October 31, 2015. Income tax expense consists primarily of foreign taxes and U.S. tax expense related to indefinite-lived intangibles.

Autodesk regularly assesses the need for a valuation allowance against its deferred tax assets. In making that assessment, Autodesk considers both positive and negative evidence related to the likelihood of realization of the deferred tax assets to determine, based on the weight of available evidence, whether it is more likely than not that some or all of the deferred tax assets will not be realized. In evaluating the need for a valuation allowance, Autodesk considered cumulative losses in the United States arising from the Company's business model transition as a significant piece of negative evidence and established a valuation allowance against the Company's deferred tax assets in the three months ended July 31, 2015. Subsequently, Autodesk determined that it had understated income tax expense by $33.1 million for the three and six months ended July 31, 2015, primarily related to an error in the establishment of the valuation allowance, which had been understated at July 31, 2015. Autodesk evaluated the materiality of the error, quantitatively and qualitatively, and concluded it was not material to the Company's condensed consolidated financial statements for the quarter ended July 31, 2015 but chose to correct the error by revising the previously reported results for the three and six months ended July 31, 2015.

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

(In millions, except per share data)	As previously reported Three Months Ended July 31, 2015	Adjustment	As adjusted Three Months Ended July 31, 2015
Provision for income tax	$ (236.4)	$ (33.1)	$ (269.5)
Net loss	(235.5)	(33.1)	(268.6)
Basic and diluted net loss per share	$ (1.04)	$ (0.14)	$ (1.18)
	Six Months Ended July 31, 2015	Adjustment	Six Months Ended July 31, 2015
Provision for income tax	$ (239.1)	$ (33.1)	$ (272.2)
Net loss	(216.4)	(33.1)	(249.5)
Basic and diluted net loss per share	$ (0.95)	$ (0.15)	$ (1.10)

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

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

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

As of October 31, 2016, the Company had $264.3 million of gross unrecognized tax benefits, excluding interest, of which approximately $250.4 million represents the amount of unrecognized tax benefits that would impact the effective tax rate, if recognized. However, this rate impact would be offset to the extent that recognition of unrecognized tax benefits currently presented as a reduction of deferred tax assets would increase the valuation allowance. It is possible that the amount of unrecognized tax benefits will change in the next twelve months; however, an estimate of the range of the possible change cannot be made at this time.

The negotiated settlement for a tax audit in China covering certain transfer pricing matters from 2004 to 2013 was finalized and paid in mid-November. The payment was for $9.9 million, which included tax and interest. There was an accrual of $9.9 million for this liability as of October 31, 2016.

The accrual for the adjustment for calendar years 2014 and 2015 will be kept on the books as the Company works with the State Administration of Taxation to settle the liabilities for these years.

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

7. Acquisitions

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

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

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

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

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

8. Other Intangible Assets, Net

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

	October 31, 2016	January 31, 2016
Developed technologies, at cost	$ 583.3	$ 571.4
Customer relationships, trade names, patents, and user lists, at cost (1)	375.4	371.6
Other intangible assets, at cost (2)	958.7	943.0
Less: Accumulated amortization	(844.1)	(796.2)

Other intangible assets, net	$ 114.6	$ 146.8

(1) Included in “Other assets” in the accompanying Condensed Consolidated Balance Sheets.
(2) Includes the effects of foreign currency translation.

9. Goodwill

The following table summarizes the changes in the carrying amount of goodwill for the periods ended October 31, 2016 and January 31, 2016:

	October 31, 2016	January 31, 2016
Goodwill, beginning of the period	$ 1,684.2	$ 1,605.4
Less: accumulated impairment losses, beginning of the period	(149.2)	(149.2)
Additions arising from acquisitions during the period	62.8	97.3
Effect of foreign currency translation, purchase accounting adjustments, and other	(40.5)	(18.5)
Goodwill, end of the period	$ 1,557.3	$ 1,535.0

Goodwill consists of the excess of consideration transferred over the fair value of net assets acquired in business combinations. Autodesk tests goodwill for impairment annually in its fourth fiscal quarter or more often if circumstances indicate a potential impairment may exist, or if events have affected the composition of reporting units.

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

Therefore, the two-step quantitative impairment test is necessary when either Autodesk does not use the optional assessment or, as a result of the optional assessment, it is not more likely than not that the fair value of the reporting unit is greater than its carrying value. In performing the two-step impairment test, Autodesk uses discounted cash flow models which include assumptions regarding projected cash flows. Variances in these assumptions could have a significant impact on Autodesk's conclusion as to whether goodwill is impaired, or the amount of any impairment charge. Impairment charges, if any, result from instances where the fair values of net assets associated with goodwill are less than their carrying values. As changes in business conditions and assumptions occur, Autodesk may be required to record impairment charges. The process of evaluating the potential impairment of goodwill is subjective and requires significant judgment at many points during the analysis. The value of Autodesk’s goodwill could also be impacted by future adverse changes such as: (i) declines in Autodesk’s actual financial results, (ii) a sustained decline in Autodesk’s market capitalization, (iii) significant slowdown in the worldwide economy or the industries Autodesk serves, or (iv) changes in Autodesk’s business strategy or internal financial results forecasts.

As described in Note 18, "Segments," commencing in the third quarter of fiscal 2017, Autodesk changed its segment reporting as it now operates as a single operating segment and single reporting unit. We were required to conduct impairment tests immediately before and after the change in the composition of our reporting units.

Accordingly, for the "before" test, we assessed goodwill for impairment during the third quarter of fiscal 2017 using the two-step quantitative test for each of our legacy reporting units: PSEB, MFG, AEC, M&E, and Delcam -- a component of our MFG operating segment. In performing the quantitative two-step test, Autodesk used a discounted cash flow model which included assumptions regarding projected cash flows. Based on this testing, Autodesk determined that the fair value was in excess of the carrying value for each of the five reporting units and therefore the goodwill of each reporting unit was not impaired during the quarter ended October 31, 2016.

As part of the "after" test, 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. The market capitalization of the Company is in excess of the carrying value of its reporting unit as of October 31, 2016. The Company determined that there were no indicators of impairment as of October 31, 2016.

10. Deferred Compensation

At October 31, 2016, Autodesk had marketable securities totaling $1.0 billion, of which $45.6 million related to investments in debt and equity securities that are held in a rabbi trust under non-qualified deferred compensation plans. The total related deferred compensation liability was $45.6 million at October 31, 2016, of which $2.5 million was classified as current and $43.1 million was classified as non-current liabilities. The total related deferred compensation liability at January 31, 2016 was $38.0 million, of which $1.9 million was classified as current and $36.1 million was classified as non-current liabilities. The securities are recorded in the Condensed Consolidated Balance Sheets under the current portion of "Marketable securities." The current and non-current portions of the liability are recorded in the Condensed Consolidated Balance Sheets under “Accrued compensation” and “Other liabilities,” respectively.

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

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

	October 31, 2016	January 31, 2016
Computer hardware, at cost	$ 205.3	$ 202.7
Computer software, at cost	72.1	85.6
Leasehold improvements, land and buildings, at cost	204.7	202.9
Furniture and equipment, at cost	58.0	59.0
	540.1	550.2
Less: Accumulated depreciation	(371.8)	(380.9)
Computer software, hardware, leasehold improvements, furniture and equipment, net	$ 168.3	$ 169.3

12. Borrowing Arrangements

In June 2015, Autodesk issued $450.0 million aggregate principal amount of 3.125% notes due June 15, 2020 and $300.0 million aggregate principal amount of 4.375% notes due June 15, 2025 (collectively, the “2015 Notes”). Net of a discount of $1.7 million and issuance costs of $6.3 million, Autodesk received net proceeds of $742.0 million from issuance of the 2015 Notes. Both the discount and issuance costs are being amortized to interest expense over the respective terms of the 2015 Notes using the effective interest method. The proceeds of the 2015 Notes are available for general corporate purposes. Autodesk may redeem the 2015 Notes at any time, subject to a make whole premium. In addition, upon the occurrence of certain change of control triggering events, Autodesk may be required to repurchase the 2015 Notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest to the date of repurchase. The 2015 Notes contain restrictive covenants that limit Autodesk's ability to create certain liens, to enter into certain sale and leaseback transactions and to consolidate or merge with, or convey, transfer or lease all or substantially all of its assets, subject to important qualifications and exceptions. Based on quoted market prices, the fair value of the 2015 Notes was approximately $772.5 million as of October 31, 2016.

In December 2012, Autodesk issued $400.0 million aggregate principal amount of 1.95% notes due December 15, 2017 and $350.0 million aggregate principal amount of 3.6% notes due December 15, 2022 (collectively, the “2012 Notes”). Autodesk received net proceeds of $739.3 million from issuance of the 2012 Notes, net of a discount of $4.5 million and issuance costs of $6.1 million. Both the discount and issuance costs are being amortized to interest expense over the respective terms of the 2012 Notes using the effective interest method. The proceeds of the 2012 Notes are available for general corporate purposes. Autodesk may redeem the 2012 Notes at any time, subject to a make whole premium. In addition, upon the occurrence of certain change of control triggering events, Autodesk may be required to repurchase the 2012 Notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest to the date of repurchase. The 2012 Notes contain restrictive covenants that limit Autodesk's ability to create certain liens, to enter into certain sale and leaseback transactions and to consolidate or merge with, or convey, transfer or lease all or substantially all of its assets, subject to important qualifications and exceptions. Based on quoted market prices, the fair value of the 2012 Notes was approximately $760.3 million as of October 31, 2016.

Autodesk’s line of credit facility permits unsecured short-term borrowings of up to $400.0 million, with an option to request an increase in the amount of the credit facility by up to an additional $100.0 million, and is available for working capital or other business needs. This credit agreement contains customary covenants that could restrict the imposition of liens on Autodesk’s assets, and restrict the Company’s ability to incur additional indebtedness or make dispositions of assets if Autodesk fails to maintain the financial covenants. The financial covenants consist of a leverage ratio, and an interest coverage ratio. The line of credit is syndicated with various financial institutions, including Citibank, N.A., an affiliate of Citigroup, which is one of the lead lenders and an agent. The maturity date on the line of credit is May 2020. At October 31, 2016, Autodesk was in compliance with the credit facility's covenants and had no outstanding borrowings on this line of credit.

13. Restructuring charges and other facility exit costs, net

In February 2016, the Board of Directors approved a world-wide restructuring plan (“Fiscal 2017 Plan”) in order to re-balance staffing levels and reduce operating expenses to better align them with the evolving needs of the business. The Company's Fiscal 2017 Plan consists of employee termination benefits related to the reduction of its workforce with expected costs of approximately $65.0 million, and lease terminations and other exit costs expected to be approximately $7.0 million. During the three and nine months ended October 31, 2016, restructuring charges under the Fiscal 2017 Plan included $2.8 million and $58.5 million in employee termination benefits, respectively, and $0.4 million and $5.6 million in lease termination and other exit costs, respectively. During the nine months ended October 31, 2016, we incurred $7.4 million in lease termination costs not related to the Fiscal 2017 Plan. Other costs primarily consist of legal, consulting, and other costs related to employee terminations and are expensed when incurred.

The Company expects to pay substantially all of the employee termination benefits and facility related liabilities under the Fiscal 2017 Plan by the end of fiscal 2017.

The following table sets forth the restructuring charges and other lease termination exit costs during the nine months ended October 31, 2016:

	Balances, January 31, 2016	Additions	Payments	Adjustments (1)	Balances, October 31, 2016
Fiscal 2017 Plan					
Employee termination costs	$ —	$ 58.5	$ (54.0)	$ —	$ 4.5
Lease termination and other exit costs	—	5.6	(2.5)	(1.9)	1.2
Other Lease Termination Costs					
Lease termination costs	—	7.4	(1.0)	(3.5)	2.9
Total	$ —	$ 71.5	$ (57.5)	$ (5.4)	$ 8.6
Current portion (2)	$ —				$ 7.0
Non-current portion (2)	—				1.6
Total	$ —				$ 8.6

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

(2) The current and non-current portions of the reserve are recorded in the Condensed Consolidated Balance Sheets under “Other accrued liabilities” and “Other liabilities,” respectively.

14. Commitments and Contingencies

Guarantees and Indemnifications

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

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

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

Legal Proceedings

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

15. Common Stock Repurchase Program

Autodesk has a stock repurchase program that is used to offset dilution from the issuance of stock under the Company’s employee stock plans and for such other purposes as may be in the interests of Autodesk and its stockholders. Stock repurchases have the effect of returning excess cash generated from the Company’s business to stockholders. During the three and nine months ended October 31, 2016, Autodesk repurchased and retired 2.0 million and 6.8 million shares at an average repurchase price of $68.74 and $59.92 per share, respectively. Common stock and additional paid-in capital and accumulated deficit were reduced by $39.9 million and $99.7 million, respectively, during the three months ended October 31, 2016. Common stock and additional paid-in capital and accumulated deficit were reduced by $151.4 million and $258.2 million, respectively, during the nine months ended October 31, 2016.

At October 31, 2016, 29.5 million shares remained available for repurchase under the repurchase program approved by the Board of Directors, including the 30.0 million share increase approved by the Board of Directors in September 2016. During the nine months ended October 31, 2016, Autodesk repurchased its common stock through open market purchases. The number of shares acquired and the timing of the purchases are based on several factors, including general market and economic conditions, the number of employee stock option exercises and stock issuances, the trading price of Autodesk common stock, cash on hand and available in the United States, cash requirements for acquisitions, and Company defined trading windows.

16. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss, net of taxes, consisted of the following at October 31, 2016:

	Net Unrealized Gains (Losses) on Derivative Instruments	Net Unrealized Gains (Losses) on Available-for-Sale Securities	Defined Benefit Pension Components	Foreign Currency Translation Adjustments	Total
Balances, January 31, 2016	$ 15.7	$ 0.2	$ (28.3)	$ (108.7)	$(121.1)
Other comprehensive (loss) income before reclassifications	(2.5)	3.1	(0.2)	(56.6)	(56.2)
Pre-tax (gains) losses reclassified from accumulated other comprehensive loss	(8.6)	(0.7)	1.0	—	(8.3)
Tax effects	(0.6)	(0.6)	(0.2)	(0.5)	(1.9)
Net current period other comprehensive (loss) income	(11.7)	1.8	0.6	(57.1)	(66.4)
Balances, October 31, 2016	$ 4.0	$ 2.0	$ (27.7)	$ (165.8)	$(187.5)

Reclassifications related to gains and losses on available-for-sale securities are included in "Interest and other expense, net." Refer to Note 4, "Financial Instruments" for the amount and location of reclassifications related to derivative instruments. Reclassifications of the defined benefit pension components are included in the computation of net periodic benefit cost. For further information, see the "Retirement Benefit Plans" note in Part II, Item 8 of our Annual Report on Form 10-K for the fiscal year ended January 31, 2016.

17. Net Loss Per Share

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2016	2015	2016	2015
Numerator:				
Net loss	$(142.8)	$(43.8)	$(408.7)	$(293.3)
Denominator:				
Denominator for basic net loss per share—weighted average shares	222.3	225.3	223.3	226.5
Effect of dilutive securities (1)	—	—	—	—
Denominator for dilutive net loss per share	222.3	225.3	223.3	226.5
Basic net loss per share	$(0.64)	$(0.19)	(1.83)	$(1.29)
Diluted net loss per share	$(0.64)	$(0.19)	(1.83)	$(1.29)

---
(1)

The effect of dilutive securities of 4.4 million shares and 3.4 million shares for the three months ended October 31, 2016 and 2015, respectively, have been excluded from the calculation of diluted net loss per share as those shares would have been anti-dilutive due to the net loss incurred during those periods. The effect of dilutive securities of 4.0 million shares in each of the nine months ended October 31, 2016 and 2015 have been excluded from the calculation of diluted net loss per share as those shares would have been anti-dilutive due to the net loss incurred during those periods.

The computation of diluted net loss per share does not include shares that are anti-dilutive under the treasury stock method because their exercise prices are higher than the average market value of Autodesk's stock during the period. For the three months ended October 31, 2016, no potentially anti-dilutive shares were excluded from the computation of diluted net loss per share. For the three months ended October 31, 2015, 0.6 million potentially anti-dilutive shares were excluded from the computation of diluted net loss per share. For the nine months ended October 31, 2016 and 2015, 0.4 million and 0.1 million potentially anti-dilutive shares were excluded from the computation of diluted net loss per share, respectively.

18. Segments

Autodesk reports segment information based on the “management” approach. The management approach designates the internal reporting used by management for making decisions, allocating resources and assessing performance as the source of the Company’s reportable segments. Prior to the third quarter of fiscal 2017, Autodesk had four operating segments: AEC, MFG, PSEB, and M&E.

As a result of the Company’s business model transition, there have been a number of changes in the business including a platform shift from perpetual licenses to subscription-based offerings and organizational changes in how the business is managed including a restructuring announced in the first quarter of fiscal 2017. In the third quarter of fiscal 2017, these organizational changes resulted in a change in the internal reporting provided to Autodesk’s chief operating decision maker (“CODM”) used to assess the performance of the business to focus on consolidated operating results. Accordingly, the Company's CODM now allocates resources and assesses the operating performance of the Company as a whole. As such, beginning in the third quarter of fiscal 2017, Autodesk concluded that it has one segment manager (the CODM), one operating segment, and one reporting unit for goodwill impairment purposes.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2016	2015	2016	2015
Net revenue by geographic area:				
Americas				
U.S.	$182.2	$195.6	$562.1	$589.7
Other Americas	31.1	40.2	99.0	125.8
Total Americas	213.3	235.8	661.1	715.5
Europe, Middle East and Africa	191.0	225.1	614.1	696.2
Asia Pacific				
Japan	28.7	49.0	102.8	164.8
Other Asia Pacific	56.6	89.9	174.2	279.3
Total Asia Pacific	85.3	138.9	277.0	444.1
Total net revenue	$489.6	$599.8	$1,552.2	$1,855.8
Net revenue by product family:				
Architecture, Engineering and Construction	$212.3	$224.9	$684.4	$695.0
Manufacturing	146.6	174.9	481.5	530.7
AutoCAD and AutoCAD LT (1)	80.1	143.6	239.1	451.7
Media and Entertainment	34.2	39.1	103.6	119.8
Other (1)	16.4	17.3	43.6	58.6
	$489.6	$599.8	$1,552.2	$1,855.8

---

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

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

The discussion in our MD&A and elsewhere in this Form 10-Q contains trend analyses and other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are any statements that look to future events and consist of, among other things, our business strategies, including those discussed in "Strategy" and "Overview of the Three and Nine Months Ended October 31, 2016 and 2015" below, future net revenue, future GAAP and non-GAAP net (loss) income per share, operating margin, operating expenses, annualized recurring revenue, annualized revenue per subscription, other future financial results (by product type and geography) and subscriptions, the effectiveness of our efforts to successfully manage transitions to new business models and markets, our expectations regarding the continued transition of our business model, our ability to increase our subscription base, expected market trends, including the growth of cloud and mobile computing, the effect of unemployment, the availability of credit, our expectations for our restructuring, the effects of mixed global economic conditions, the effects of revenue recognition, our backlog, expected trends in certain financial metrics, including expenses, the impact of acquisitions and investment activities, expectations regarding our cash needs, the effects of fluctuations in exchange rates and our hedging activities on our financial results, our ability to successfully expand adoption of our products, our ability to gain market acceptance of new businesses and sales initiatives, the impact of economic volatility and geopolitical activities in certain countries, particularly emerging economy countries, the timing and amount of purchases under our newly announced 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, continuation of our stock repurchase program, 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," "p "expect," and similar expressions or the negative of these terms or other comparable terminology. These forward-looking statements speak only as of the date of this Form 10-Q and are subject to business and economic risks. As such, our actual results could differ materially from those set forth in the forward-looking statements as a result of the factors set forth below in Part II, Item 1A, "Risk Factors," and in our other reports filed with the U.S. Securities and Exchange Commission. We assume no obligation to update the forward-looking statements to reflect events that occur or circumstances that exist after the date on which they were made, except as required by law.

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

Strategy

Autodesk's vision is to help people imagine, design, and create a better world. We do this by developing software and services for the world's designers, architects, engineers, digital artists, professionals, and non-professionals alike — who design and make the world's places (architecture, engineering, and construction), things (manufacturing), and media (games and digital entertainment).

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

Our strategy is to lead the industries we serve to cloud-based technologies and business models. This entails both a technological shift and a business model shift. As part of the transition, we discontinued selling new perpetual licenses of most individual software products effective February 1, 2016, and discontinued selling new perpetual licenses of suites while introducing industry collections effective August 1, 2016. Industry collections allow access to a broad set of products that exceeds those previously available in suites - simplifying the customer ability to get access to a complete set of tools for their industry. We now offer term-based product subscriptions for individual products and industry collections, cloud service offerings, and flexible enterprise business agreements ("new model subscription offerings"). These offerings are designed to give our customers more flexibility with how they use our products and service offerings and to 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 accelerated our transition away from selling a mix of perpetual licenses and term-based product subscriptions toward a single subscription model. As a result of this shift and various other factors described in Note 18, "Segments," we now operate as a single operating segment. During the transition, revenue, margins, EPS, deferred revenue and cash flow from operations will be impacted as more revenue is recognized ratably rather than up front and as new product offerings generally have a lower initial purchase price.

As we progress through the business model transition, reported revenue is less relevant to measure the success of the business as perpetual license sales are discontinued in favor of subscription offerings, which have considerably lower up-front prices. Annualized recurring revenue ("ARR") and growth of subscriptions better reflect business momentum and provide additional transparency into the transition. To further analyze progress, we disaggregate our growth in these metrics between the original maintenance model ("maintenance") and the new model subscription offerings. Maintenance subscriptions peaked in the fourth quarter of our fiscal 2016, and we expect them to decline slowly over time.

We sell our products and services globally, through a combination of indirect and direct channels. During the three months ended October 31, 2016 and 2015, our indirect channels, which include value added resellers, direct market resellers, distributors, computer manufacturers, and other software developers, were responsible for 71% and 79% of our overall revenue, respectively. During the same periods, our direct channels, which include sales resources dedicated to selling in our largest accounts, our highly specialized products, and business transacted through our company e-store, were responsible for 29% and 21% of our overall revenue, respectively. During the nine months ended October 31, 2016 and 2015, our indirect channels were responsible for 74% and 80% of our overall revenue, respectively. During the same periods, our direct channels were responsible for 26% and 20% of our overall revenue, respectively.

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

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

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

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

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

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

Critical Accounting Policies and Estimates

Our Condensed Consolidated Financial Statements are prepared in conformity with U.S. generally accepted accounting principles ("GAAP"). In preparing our Condensed Consolidated Financial Statements, we make assumptions, judgments and estimates that can have a significant impact on amounts reported in our Condensed Consolidated Financial Statements. We base our assumptions, judgments and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. We regularly reevaluate our assumptions, judgments and estimates. Our significant accounting policies are described in Note 1, "Business and Summary of Significant Accounting Policies," in the Notes to Consolidated Financial Statements in our Form 10-K for the fiscal year ended January 31, 2016. In addition, we highlighted those policies that involve a higher degree of judgment and complexity with further discussion in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Form 10-K. We believe these policies are the most critical to aid in fully understanding and evaluating our financial condition and results of operations.

Overview of the Three and Nine Months Ended October 31, 2016 and 2015

(in millions)	Three Months Ended October 31, 2016	As a % of Net Revenue	Change compared to prior fiscal year $	%	Three Months Ended October 31, 2015	As a % of Net Revenue
Net Revenue	$489.6	100 %	$ (110.2)	(18)%	$599.8	100 %
Cost of revenue	81.5	17 %	(9.5)	(10)%	91.0	15 %
Gross Profit	408.1	83 %	(100.7)	(20)%	508.8	85 %
Operating expenses	528.0	108 %	4.4	1 %	523.6	87 %
Loss from operations	$(119.9)	(24)%	$ (105.1)	710 %	$(14.8)	(2)%

	Nine Months Ended October 31, 2016	As a % of Net Revenue	Change compared to prior fiscal year	Nine Months Ended October 31, 2015	As a % of Net Revenue