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, 1999

OR

___ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-14338

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

Delaware	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)

Telephone Number (415) 507-5000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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 ___

As of December 1, 1999, there were approximately 61.6 million shares of the Registrant's Common Stock outstanding.

AUTODESK, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Three months ended October 31,		Nine months ended October 31,	
	1999	1998	1999	1998
Net revenues	$ 202,072	$ 204,609	$ 599,956	$ 654,338
Costs and expenses:				
Cost of revenues	35,220	31,009	107,242	100,613
Marketing and sales	75,439	71,824	237,607	221,002
Research and development	41,151	40,890	124,441	118,577
General and administrative	32,168	28,288	101,210	82,880
Amortization of goodwill and purchased intangibles	7,801	7,405	22,838	21,407
Nonrecurring charges	14,728	-	36,510	19,694
Litigation accrual reversal	-	-	-	(18,605)
	206,507	179,416	629,848	545,568
Income (loss) from operations	(4,435)	25,193	(29,892)	108,770
Interest and other income, net	6,482	3,887	16,798	13,936
Income (loss) before income taxes	2,047	29,080	(13,094)	122,706
Provision for income taxes	654	11,456	2,268	48,819
Net income (loss)	$ 1,393	$ 17,624	$ (15,362)	$ 73,887
Basic net income (loss) per share	$ 0.02	$ 0.31	$ (0.25)	$ 1.31
Diluted net income (loss) per share	$ 0.02	$ 0.31	$ (0.25)	$ 1.25
Shares used in computing basic net income (loss) per share	61,157	56,305	60,300	56,226
Shares used in computing diluted net income (loss) per share	61,482	57,533	60,300	58,986

See accompanying notes.

AUTODESK, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
ASSETS
(In thousands)

	October 31,1999 (Unaudited)	January 31, 1999 (Audited)
Current assets:		
Cash and cash equivalents	$ 183,194	$ 258,941
Marketable securities	210,458	102,756
Accounts receivable, net	123,382	114,901
Inventories	23,101	23,169
Deferred income taxes	28,253	20,323
Prepaid expenses and other current assets	25,529	24,325
Total current assets	593,917	544,415
Marketable securities	156,239	66,265
Computer equipment, furniture, and leasehold improvements, at cost:		
Computer equipment and furniture	147,375	140,513
Leasehold improvements	26,378	24,767
Less accumulated depreciation	(130,495)	(116,625)
Net computer equipment, furniture, and leasehold improvements	43,258	48,655
Purchased technologies and capitalized software, net	32,837	40,630
Goodwill, net	81,538	85,546
Deferred income taxes	22,630	12,147
Other assets	14,476	25,602
	$ 944,895	$ 823,260

See accompanying notes.

AUTODESK, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
LIABILITIES AND STOCKHOLDERS' EQUITY
(In thousands)

	October 31, 1999	January 31, 1999
	(Unaudited)	(Audited)
Current liabilities:		
Accounts payable	$ 40,667	$ 49,053
Accrued compensation	50,497	49,592
Accrued income taxes	74,082	96,731
Deferred revenues	43,703	24,833
Other accrued liabilities	79,365	58,905
Total current liabilities	288,314	279,114
Deferred income taxes	1,067	3,333
Other liabilities	1,518	3,486
Stockholders' equity:		
Common stock	620,125	470,801
Deferred compensation	(256)	(551)
Retained earnings	49,776	81,209
Accumulated other comprehensive loss	(15,649)	(14,132)
Total stockholders' equity	653,996	537,327
	$ 944,895	$ 823,260

See accompanying notes.

AUTODESK, INC.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine months ended October 31	
	1999	1998
Operating activities		
Net income (loss)	$ (15,362)	$ 73,887
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Charge for acquired in-process research and development	3,287	13,100
Depreciation and amortization	61,171	53,305
Litigation and related interest accrual reversal	-	(20,900)
Reversal of restructuring reserve, net	-	(1,003)
Net gain on disposition of business unit	-	(1,307)
Net gain on sale of investment	-	(2,500)
Write-off of purchased technology	-	2,233
Net loss on fixed asset disposals	3,240	-
Changes in operating assets and liabilities	(25,701)	(8,612)
Net cash provided by operating activities	26,635	108,203
Investing activities		
Net purchases of marketable securities	(197,675)	(55,802)
Business combinations, net of cash acquired	(25,642)	(69,279)
Capital purchases of computer equipment, furniture, and leasehold improvements	(16,395)	(17,496)
Proceeds from disposition of fixed assets	5,587	-
Proceeds from disposition of business unit	-	5,137
Proceeds from sale of investment	-	2,500
Purchases of software technologies, capitalization of software costs, and other	(242)	(7,632)
Net cash used in investing activities	(234,367)	(142,572)
Financing activities		
Proceeds from issuance of common stock, net of issuance costs	149,300	90,227
Repurchase of common stock	-	(48,866)
Dividends paid	(11,000)	(8,394)
Decrease in credit line	(1,921)	-
Change in notes payable and short-term borrowings, net	1,334	4,864
Net cash provided by financing activities	137,713	37,831
Effect of exchange rate changes on cash and cash equivalents	(6,048)	11,278
Discreet Logic activity for the one month ended January 31, 1999	320	-
Net increase (decrease) in cash and cash equivalents	(75,747)	14,740
Cash and cash equivalents at beginning of year	258,941	108,738
Cash and cash equivalents at end of period	$ 183,194	$ 123,478
Supplemental cash flow information:		
Cash paid during the period for income taxes	$ 40,333	$ 14,331
Supplemental noncash information:		
Common stock received in relation to the equity collar	$ -	$ 4,265

See accompanying notes.

1. Basis of Presentation

The condensed consolidated financial statements of Autodesk, Inc. ("Autodesk" or the "Company") at October 31, 1999 and for the three- and nine- month periods then ended are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, together with management's discussion and analysis of financial condition and results of operations, contained in the Company's Annual Report to Stockholders incorporated by reference in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1999 and the Company's supplemental consolidated financial statements (which combine the results of Autodesk and Discreet Logic Inc. - see Note 2) on Form 8-K/A for the fiscal year ended January 31, 1999. The results of operations for the three and nine months ended October 31, 1999 are not necessarily indicative of the results for the entire fiscal year ending January 31, 2000.

2. Business Combinations

Discreet Logic Inc.

On March 16, 1999, Autodesk acquired Discreet Logic Inc. ("Discreet") by issuing approximately 10.0 million shares of Autodesk common stock in exchange for Discreet's outstanding common stock. Discreet develops, assembles, markets and supports nonlinear digital systems and software for creating, editing, and compositing imagery for film, video, and HDTV.

Autodesk accounted for this acquisition under the pooling of interests method. Accordingly, all prior period consolidated financial statements presented have been restated to include the combined results of operations, financial position and cash flows as though it had always been part of Autodesk.

Prior to the acquisition, Discreet's fiscal year ended June 30. As a result, the financial statements for the three- and nine- month periods ended October 31, 1998 combine Autodesk's historical financial statements with Discreet's financial statements for the three- and nine- month periods ended September 30, 1998, respectively.

Results of Discreet for the one-month period ended January 31, 1999, have been excluded from the reported results of the combined entity as a result of changing Discreet's year-end to January 31, 1999. In January 1999, Discreet recognized net revenues of $3.8 million and incurred a net loss of $5.0 million. The loss was recorded as an adjustment to retained earnings. There were no other significant changes in stockholders' equity for the period excluded from the reported results of operations.

VISION* Solutions

On April 22, 1999, the Company acquired VISION* Solutions ("VISION"), a vendor of enterprise automated mapping/facilities management/geographic information systems (AM/FM/GIS) solutions from MCI Systemhouse Corporation, a subsidiary of MCI WorldCom Inc., for approximately $26 million in cash. Autodesk is accounting for this acquisition under the purchase method of accounting. Approximately $3.3 million of the VISION purchase price represented the value of in-process research and development that had not yet reached technological feasibility and had no alternative future use, and as such, was charged to nonrecurring charges in the first quarter of fiscal year 2000. The remaining purchase price was allocated, based on the Company's preliminary estimates, primarily to assets acquired, developed technology, and other intangibles. Specifically, costs of $17.6 million and $2.1 million have been allocated to preliminary goodwill and other intangibles and are being amortized on a straight-line basis over periods ranging from three to seven years. There may be additional adjustments over the next several months as the

Company continues to evaluate the preliminary purchase price allocation. The operating results of VISION, which have not been material in relation to those of the Company, have been included in the accompanying condensed consolidated financial statements since the date of acquisition.

3. Common Stock Follow-on Offering

On March 16, 1999, Autodesk sold 3.0 million shares of Autodesk common stock at $41 per share for net proceeds of $117.5 million.

4. Recently Issued Accounting Standards

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). This Statement requires Autodesk to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. In June 1999, the FASB issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133 - an amendment of FASB Statement No. 133" ("SFAS 137"). SFAS 137 delays the effective date of SFAS 133 to the beginning of the Company's fiscal year 2002. Autodesk is currently evaluating the impact of SFAS 133, as amended by SFAS 137, on its financial statements and related disclosures.

5. Net Income (Loss) Per Share

Basic net income (loss) per share is calculated using the weighted average number of common shares outstanding. Diluted net income (loss) per share is computed using the weighted average number of common shares outstanding and dilutive common stock equivalents outstanding during the period. A reconciliation of the numerators and denominators used in the basic and diluted net income (loss) per share amounts follows:

	Three months ended October 31,		Nine months ended October 31,	
(In thousands)	1999	1998	1999	1998
Numerator:				
Numerator for basic and diluted per share amounts--net income (loss)	$ 1,393	$ 17,624	$ (15,362)	$ 73,887
Denominator:				
Denominator for basic net income (loss) per share--weighted average shares	61,157	56,305	60,300	56,226
Effect of dilutive common stock options	325	1,228	-	2,760
Denominator for dilutive net income (loss) per share	61,482	57,533	60,300	58,986

In periods that the Company incurs a net loss, all outstanding options are excluded from the calculation of diluted net loss per share. Had the Company not been in a loss position for the nine months ended October 31, 1999, dilutive options of 1.1 million shares would have been added to compute diluted net loss per share.

For the three months ended October 31, 1999 and 1998, options to purchase 23.2 million and 8.9 million shares, respectively, have been excluded from the computation of diluted net income per share. For the nine months ended October 31, 1999 and 1998, options to purchase 7.7 million and 3.5 million shares, respectively, have been excluded from the computation of diluted net income per share. Such options were excluded because the options had exercise prices greater than the average market prices of common stock during the respective periods.

6. Comprehensive Income

Pursuant to Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"), unrealized gains or losses on the Company's available-for-sale marketable securities and foreign currency translation adjustments are included in other comprehensive income.

Autodesk's total comprehensive income (loss) was as follows:

	Three months ended October 31,		Nine months ended October 31,	
(In thousands)	1999	1998	1999	1998
Net income (loss)	$ 1,393	$ 17,624	$ (15,362)	$ 73,887
Other comprehensive income (loss)	3,479	17,544	(1,517)	13,612
Total comprehensive income (loss)	$ 4,872	$ 35,168	$ (16,879)	$ 87,499

7. Nonrecurring Charges

During the nine months ended October 31, 1999, the Company recorded nonrecurring charges totaling $36.5 million, which resulted from the acquisition of Discreet ($17.7 million), acquisition of VISION ($3.3 million - see Note 2), and a corporate restructuring that occurred during the third quarter of 1999 ($15.5 million).

In connection with the acquisition of Discreet, the Company recorded nonrecurring charges of $18.5 million during the first quarter of 1999. Of this amount, $0.8 million was reversed during the third quarter since certain liabilities were settled for less than originally estimated. Of the net amount ($17.7 million), $14.9 million related to transaction costs, $2.6 million related to restructuring costs, and $0.2 million related to other one-time costs. Transaction costs consisted primarily of fees for investment bankers, attorneys, financial printing, accountants, and other related costs. Restructuring costs included severance and exit costs.

In an effort to reduce on-going operating expenses, the Company incurred $15.5 million of restructuring charges during the third quarter of 1999, consisting of termination and other employee-related costs associated with the elimination of approximately 350 positions ($11.7 million); office closure-related costs ($3.2 million); and one-time costs ($0.6 million). Employee termination costs included wage continuation, advance notice pay and medical and other benefits. The liabilities associated with the employee terminations will be substantially settled over the next several months. Office closure-related costs included losses on operating lease payments and the write-off of leasehold improvements and equipment.

At October 31, 1999, the remaining liabilities associated with the $15.5 million of restructuring charges totaled $5.9 million.

8. Segments

During the second quarter of fiscal 2000, the Company reorganized its operations into four business divisions with industry-specific charters: the Design Solutions Division (consisting mostly of the MCAD and AECAD market groups and most of the Personal Solutions Group), the GIS Solutions Division, the Discreet Division (consisting of the Kinetix business and recently acquired Discreet business), and

Autodesk Ventures. In accordance with the aggregation criteria and the minimum threshold levels specified by Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), the Company's operating results have been aggregated into two reportable segments: the Design Solutions Segment (which includes the GIS Solutions Division and Autodesk Ventures) and the Discreet Segment.

The Design Solutions Segment develops and sells design software products for professionals, occasional users, or consumers who design, draft, and diagram. The end users of the design software products include architects, engineers, construction firms, designers, and drafters. The Discreet Segment derives revenues from the sale of its products to creative professionals for a variety of applications, including feature films, television programs, commercials, music and corporate videos, interactive game production, live broadcasting and Web design. Both segments primarily distribute their respective products through authorized dealers and distributors, and, in some cases, they also sell their products directly to end users.

Autodesk evaluates each segment's performance on the basis of income from operations before income taxes. The Company currently does not separately accumulate and report asset information by market group. Information concerning the operations of the Company's reportable segments was as follows:

	Three months ended October 31,		Nine months ended October 31,	
(In millions)	1999	1998	1999	1998
Net revenues:				
Design Solutions	$ 156.2	$ 166.8	$ 473.4	$ 520.7
Discreet	45.9	37.8	126.6	133.6
	$ 202.1	$ 204.6	$ 600.0	$ 654.3
Income (loss) from operations:				
Design Solutions	$ 73.9	$ 82.8	$ 219.8	$ 258.3
Discreet	5.3	2.5	(15.2)	17.4
Unallocated amounts/1/	(83.6)	(60.1)	(234.5)	(166.9)
	$ (4.4)	$ 25.2	$ (29.9)	$ 108.8

/1/ Unallocated amounts in the three- and nine- month periods ended October 31, 1999 and 1998 are attributed primarily to other geographic costs and expenses which are managed outside the reportable segments.

9. Stock Repurchase Program

In November 1999, management announced a plan to repurchase up to 8.0 million shares of the Company's common stock. The primary purpose of the stock repurchase program is to help offset the dilution to earnings per share caused by the issuance of stock under the Company's employee stock plans. The common stock will be purchased from time to time at the direction of management, either directly or through derivative instruments. The number of shares to be purchased and the timing of purchases will be based on several factors, including general market conditions and the trading price of Autodesk common stock. Purchases may be made in the open market or in privately negotiated transactions and will be funded from available working capital.

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

The discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations" 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. All statements, trend analyses and other information contained below relating to markets for Autodesk's products and trends in revenue, as well as other statements including such words as "anticipate," "believe," "plan," "estimate," "expect," "goal," and "intend" and other similar expressions constitute forward-looking statements. These forward-looking statements are subject to business and economic risks, and Autodesk's actual results could differ materially from those set forth in the forward-looking statements as a result of the factors set forth below, including "Certain Risk Factors Which May Impact Future Operating Results," page 15, as well as factors set forth in Autodesk's Annual Report on Form 10-K and in Autodesk's Form 8-K/A filed on May 28, 1999.

On March 16, 1999, Autodesk, Inc. ("Autodesk" or the "Company") acquired Discreet Logic Inc. ("Discreet"), in a business combination accounted for as a pooling of interests. Accordingly, all prior period consolidated financial statements presented have been restated to include the combined results of operations, financial position, and cash flows of Discreet as though it had always been a part of Autodesk. The transaction resulted in the issuance of an aggregate of approximately 10.0 million shares of Autodesk common stock in exchange for Discreet's outstanding common stock. Discreet develops, assembles, markets, and supports nonlinear digital systems and software for creating, editing, and compositing imagery for film, video, and HDTV.

Prior to the acquisition, Discreet's fiscal year ended June 30. As a result, the financial statements for the three- and nine- month periods ended October 31, 1998 combine Autodesk's historical financial statements with Discreet's financial statements for the three- and nine- month periods ended September 30, 1998, respectively.

On April 22, 1999, the Company acquired VISION* Solutions ("VISION"), a vendor of enterprise automated mapping/facilities management/geographic information systems (AM/FM/GIS) solutions. Autodesk is accounting for this acquisition under the purchase method of accounting. Accordingly, VISION's operating results, which are not material in relation to those of Autodesk, have been included in Autodesk's consolidated financial statements since the date of the acquisition.

Results of Operations

Three Months Ended October 31, 1999 and 1998

Net revenues. The Company's third quarter net revenues of $202.1 million decreased from $204.6 million recognized in the third quarter of the prior fiscal year. Increases in Asia Pacific's net revenues of 43 percent were more than offset by decreases of 12 percent and 6 percent in net revenues in the Americas and Europe, respectively, as compared to the same period in the prior fiscal year. In addition, net revenues for the Discreet Segment, which includes the Discreet business and the Kinetix business, increased 21 percent compared to the same period in the prior fiscal year. The overall decrease in net revenues was primarily due to a decline in the sales of AutoCAD and AutoCAD LT. Sales of AutoCAD and AutoCAD upgrades accounted for approximately 37 percent and 54 percent of Autodesk's consolidated net revenues in the third quarter of fiscal years 2000 and 1999, respectively. The value of the US dollar, relative to international currencies, did not have a significant impact on net revenues in the third quarter of the current fiscal year compared to the same period in the prior fiscal year. International sales, including exports from the U.S., accounted for approximately 61 percent of Autodesk's net revenues in the third quarter of fiscal year 2000 as compared to 58 percent in the same period of the prior fiscal year.

Autodesk derives a substantial portion of its revenues from sales of AutoCAD software, AutoCAD upgrades, and vertical products that are interoperable with AutoCAD, and expects this trend to continue. As such, any factor adversely affecting sales of AutoCAD and AutoCAD upgrades, including such factors as product life cycle, market acceptance, product performance and reliability, reputation, price, competition, and the availability of third-party applications, could have a material adverse effect on Autodesk's business and consolidated results of operations. Additionally, slowdowns in any of Autodesk's geographical markets could also have a material adverse impact on Autodesk's business and consolidated results of operations.

Product returns, consisting principally of stock rotation, are recorded as a reduction of revenues and represented approximately 7 percent and 4 percent of consolidated net revenues in the third quarter of fiscal years 2000 and 1999, respectively. Management anticipates that the level of product returns in future periods will continue to be impacted by the timing of new product releases, as well as the quality and market acceptance of new products.

Cost of revenues. When expressed as a percentage of net revenues, cost of revenues increased from 15 percent of net revenues in the third quarter of the prior fiscal year to 17 percent of net revenues in the third quarter of the current fiscal year. This increase is primarily due to increases in royalties and due to the acquisition of VISION, which has relatively higher cost of revenues as a percentage of net revenues than other Autodesk or Discreet products. Cost of revenues as a percentage of net revenues has been and may continue to be impacted by the mix of product sales, software amortization costs, royalty rates for licensed technology embedded in Autodesk's products, and the geographic distribution of sales.

Marketing and sales. Marketing and sales expenses were 37 percent and 35 percent of net revenues in the third quarter of fiscal years 2000 and 1999, respectively. Spending increased primarily as a result of an increase in the expense related to the launch of MCAD related products in Europe and the incremental costs due to the acquisition of VISION. Autodesk expects to continue to make significant investments in marketing and sales, both in absolute dollars and as a percentage of net revenues.

Research and development. Research and development expenses represented 20 percent of net revenues in both the third quarters of fiscal years 2000 and 1999. Spending increased largely as a result of the incremental costs due to the acquisition of VISION. Autodesk anticipates that research and development expenses will increase in future periods as a result of product development efforts by Autodesk's market groups and incremental personnel costs.

General and administrative. General and administrative expenses were 16 percent of net revenues in the third quarter of fiscal year 2000 as compared to 14 percent of net revenues in the third quarter of the prior fiscal year. Spending increased due to higher employee-related expenses. The Company currently expects that general and administrative expenses will continue to be significant in future periods to support spending on infrastructure, including continued investment in Autodesk's worldwide information systems.

Amortization of goodwill and purchased intangibles. Amortization of goodwill and purchased intangibles for the three months ended October 31, 1999, remained relatively flat as compared with the same period in the prior fiscal year.

Nonrecurring charges. In an effort to reduce operating expenses, the Company incurred $15.5 million of restructuring costs during the three months ended October 31, 1999. Of this amount, $11.7 million related to employee costs associated with the elimination of approximately 350 positions, $3.2 million related to office closure costs, and $0.6 million related to one-time costs. As a result of the restructuring, quarterly savings of approximately $9.0 million, which were partially realized during the third quarter, are expected to be offset over time by costs associated with new businesses.

Additionally, during the third quarter of 1999, the Company reversed $0.8 million of liabilities established earlier in the fiscal year related to the acquisition of Discreet. The liabilities were settled for amounts less than originally estimated.

Interest and other income. Interest and other income, net was $6.5 million in the third quarter of fiscal year 2000 compared to $3.9 million in the corresponding period of the prior year. The increase is related to higher cash, cash equivalents, and marketable securities balances.

Provision for income taxes. Excluding the impact of nonrecurring charges, the Company's effective income tax rate was 32 percent in the third quarter of fiscal 2000 compared to 39 percent in the same quarter of the prior fiscal year. The decrease in the effective income tax rate was due primarily to incremental tax benefits associated with the Company's foreign earnings that are taxed at rates different than the U.S. statutory rate. A tax benefit of 32 percent was recorded with respect to all nonrecurring charges incurred during the third quarter of fiscal 2000.

Nine Months Ended October 31, 1999 and 1998
- --

Net revenues. Autodesk's net revenues for the nine months ended October 31, 1999 of $600.0 million decreased from $654.3 million in the same period of the prior fiscal year. The decrease in net revenues was primarily due to a decline in the sales of AutoCAD products and upgrades.

Cost of revenues. Cost of revenues as a percentage of net revenues for the nine months ended October 31, 1999 was 18 percent, compared to 15 percent in the same period in the prior fiscal year. This increase is primarily due to increases in royalties, amortization of capitalized software for AutoCAD 2000 and due to the acquisition of VISION, which has relatively higher cost of revenues as a percentage of net revenues than other Autodesk or Discreet products. Cost of revenues as a percentage of net revenues has been and may continue to be impacted by the mix of product sales, software amortization costs, royalty rates for licensed technology embedded in Autodesk's products, and the geographic distribution of sales.

Marketing and sales. As a percentage of net revenues, marketing and sales expenses for the nine months ended October 31, 1999 was 40 percent compared to 34 percent in the same period in the prior fiscal year. Spending increased primarily as a result of higher advertising and promotion costs related to the launch of AutoCAD 2000 in March 1999, an increase in the expense related to the launch of MCAD related products in Europe, increased employee costs, and the acquisition of VISION.

Research and development. Research and development expenses as a percentage of net revenues for the nine months ended October 31, 1999 increased to 21 percent from 18 percent for the same period in the prior fiscal year. Spending (including capitalized software costs of $4.7 million recorded during the nine months ended October 31, 1999) increased due primarily to the addition of employee-related expenses, rent and occupancy expenses, the incremental costs due to the acquisition of VISION and professional fees related primarily to the Design 2000 family of products.

General and administrative. General and administrative expenses were 17 percent of net revenues for the nine months ended October 31, 1999, and 13 percent of net revenues in the same period of the prior fiscal year. The increase was primarily due to increased employee-related expenses and professional fees primarily related to Autodesk's information technology infrastructure.

Amortization of goodwill and purchased intangibles. Amortization of goodwill and purchased intangibles was $22.8 million for the nine months ended October 31, 1999 compared to $21.4 million for the nine months ended October 31, 1998. The increase was largely due to incremental amortization associated with the May 1998 acquisition of Genius and the April 1999 acquisition of VISION.

Nonrecurring charges - -

During the nine months ended October 31, 1999

Corporate restructuring. In an effort to reduce operating expenses, the Company incurred $15.5 million of restructuring costs during the third quarter of 1999. Of this amount, $11.7 million related to employee costs, $3.2 million related to office closure costs, and $0.6 million related to one-time costs.

Discreet acquisition. In connection with the acquisition of Discreet, the Company recorded nonrecurring charges of $18.5 million during the first quarter of 1999. Of this amount, $0.8 million was reversed during the third quarter since certain liabilities were settled for less than originally estimated. Of the net amount ($17.7 million), $14.9 million related to transaction costs, $2.6 million related to restructuring costs, and $0.2 million related to other one-time costs. Transaction costs consisted primarily of fees for investment bankers, attorneys, financial printing, accountants, and other related costs. Restructuring costs included severance and exit costs.

VISION acquisition. In connection with the VISION acquisition, the Company expensed $3.3 million as nonrecurring charges. This amount represented part of the purchase price that was allocated to in-process research and development that had not yet reached technological feasibility and had no alternative future use.

The research and development projects in-process at the acquisition date consisted of the development of two products, VISION* 5.3 (formerly Vision 6.x) and VISION* Electric 2.3 (formerly Electric 3.x), both of which are expected to be introduced during fiscal year 2001.

The projected financial results used in the valuation were based on expectations for VISION on a stand-alone basis that any third party acquirer may expect excluding the specific synergistic benefits that Autodesk expects to achieve after the acquisition.

The rate used to discount the net cash flows back to their present values is based on the weighted average costs of capital, or "WACC". A discount rate of 25% was used for valuing the in-process research and development. In utilizing a discount rate greater than Autodesk's WACC, management has reflected the risk premium associated with achieving the forecasted cash flows with these projects.

During the nine months ended October 31, 1998

Genius acquisition. On May 4, 1998, Autodesk entered into an agreement with Genius CAD Software GmbH ("Genius"), a German limited liability company, to purchase various mechanical computer-aided design software applications and technologies. The acquisition was accounted for using the purchase method of accounting and resulted in a nonrecurring charge for in-process research and development, that had not yet reached technological feasibility and had no alternative future use, of $13.1 million, all of which was recorded during the three months ended July 31, 1998.

Of the five acquired Genius in-process technologies, two were completed and introduced in fiscal year 1999. The remaining three technologies were completed and introduced during the third quarter of fiscal year 2000.

Other. During the nine months ended October 31, 1998, the Company recorded charges of approximately $8.9 million relating primarily to restructuring charges associated with the consolidation of certain development centers ($1.5 million); the write-off of purchased technologies associated with these operations ($2.2 million); staff reductions in Asia Pacific in response to economic conditions in the region ($1.7 million); costs in relation to potential legal settlements ($2.5 million); and the write-down to fair market value of older computer equipment that the Company planned to dispose of ($1.0 million). The $8.9 million charge was offset by $2.3 million of excess restructuring reserves that Discreet reversed during the quarter ended July 31, 1998.

Litigation accrual reversal. During the nine months ended October 31, 1998, the Company recognized $18.2 million and $2.7 million as operating income and interest income, respectively, to reflect the remaining unutilized litigation and related interest accruals related to final adjudication of a claim of trade-secret misappropriation brought by VMI.

Interest and other income. Interest and other income, net was $16.8 million for the nine months ended October 31, 1999, as compared to $13.9 million for the same period in the prior fiscal year. The prior fiscal year amount included $2.7 million representing the interest portion of the VMI settlement and a $1.3 million gain realized upon the sale of technical programs and related documentation, certain tangible fixed assets, copyrights, tradenames, and other intangible assets associated with Autodesk's Picture This Home!(R) software programs. These decreases were offset by increases to interest income related to higher cash, cash equivalents, and marketable securities balances resulting from common stock issuances.

Provision for income taxes. Excluding the impact of nonrecurring charges, the Company's effective income tax rate was 32 percent for the first nine months of fiscal 2000 compared to 37 percent for the same period in the prior fiscal year. The decrease in the effective income tax rate was due primarily to incremental tax benefits associated with the Company's foreign earnings that are taxed at rates different than the U.S. statutory rate. A tax benefit of 32 percent was recorded with respect to all nonrecurring charges recognized during the third quarter of fiscal 2000. No tax benefit was recorded with respect to the nonrecurring charges incurred in connection with the Discreet and VISION acquisitions in the first quarter of fiscal 2000.

The Company's United States income tax returns for fiscal years ended January 31, 1992 through 1996, have been examined by the Internal Revenue Service ("IRS"). On August 27, 1997, the IRS issued a Notice for Deficiency proposing increases to the amount of the Company's federal income taxes for fiscal years 1992 and 1993. On November 25, 1997, the Company filed a petition with the United States Tax Court to contest these alleged tax deficiencies. In July 1999, the Company made tax payments with respect to all issues addressed as part of the IRS audit. As a result, the Company has either resolved all matters or made prepayments with respect to remaining outstanding issues for the tax years ended January 31, 1992 through 1996. The resolution of any remaining adjustments that may ultimately result from these examinations are not expected to have a material adverse impact on the Company's consolidated results of operations or its financial position.

Certain Risk Factors Which May Impact Future Operating Results

Autodesk operates in a rapidly changing environment that involves a number of risks, many of which are beyond its control. The following discussion highlights some of these risks and the possible impact of these factors on future results of operations.

Fluctuations in quarterly operating results. From time to time, Autodesk experiences fluctuations in its quarterly operations as a result of periodic release cycles, competitive factors and general economic conditions among other things. Recently, Autodesk has experienced reduced sales which Autodesk believes may be attributable to a slowdown of customer purchases in response to product transition issues relating to the introduction of AutoCAD 2000 before introduction of corresponding associated products such as Mechanical Desktop 4.0 and AutoCAD LT 2000, and to general concerns about Year 2000 problems, in particular diversion of software budgets to Year 2000 testing.

In addition, Autodesk has in the past experienced fluctuations in operating results in interim periods in certain geographic regions due to seasonality. In particular, Autodesk's operating results in Europe during the third fiscal quarter are usually impacted by a slow summer period, and the Asia Pacific operations typically experience seasonal slowing in the third and fourth fiscal quarters.

The technology industry is particularly susceptible to fluctuations in operating results from quarter to quarter. These fluctuations are caused by a number of factors including the timing of the introduction of new products by Autodesk or its competitors and other economic factors experienced by Autodesk's customers in the geographic regions in which Autodesk does business.

Within the Discreet business unit, a limited number of system sales may account for a substantial percentage of Discreet's quarterly revenue because of the high average sales price of products and the timing of purchase orders. Historically, Discreet has generally experienced greater revenues during the period following the completion of the NAB trade show, which typically is held in April. In addition, the timing of revenue is influenced by a number of other factors, including the timing of individual orders and shipments, other industry trade shows, competition, seasonal customer buying patterns, changes in customer buying patterns in response to platform changes and changes in product development, and sales and marketing expenditures.

Additionally, Autodesk's operating expenses are based in part on its expectations for future revenues and are relatively fixed in the short term. Accordingly, any revenue shortfall below expectations could have an immediate and significant adverse effect on Autodesk's consolidated results of operations and financial condition.

Similarly, shortfalls in Autodesk's revenues or earnings from levels expected by securities analysts could have an immediate and significant adverse effect on the trading price of Autodesk's common stock. Moreover, Autodesk's stock price is subject to the volatility generally associated with technology stocks and may also be affected by broader market trends unrelated to performance.

Product concentration. Autodesk derives a substantial portion of its revenues from sales of AutoCAD software, AutoCAD upgrades, and adjacent products that are interoperable with AutoCAD. As such, any factor adversely affecting sales of AutoCAD and AutoCAD upgrades, including such factors as product life cycle, market acceptance, product performance and reliability, reputation, price competition, and the availability of third-party applications, could have a material adverse effect on Autodesk's business and consolidated results of operations.

Competition. The software industry has limited barriers to entry, and the availability of desktop computers with continually expanding capabilities at progressively lower prices contributes to the ease of market entry. Because of these and other factors, competitive conditions in the industry are likely to intensify in the future. Increased competition could result in price reductions, reduced revenues and profit margins, and loss of market share, any of which could adversely affect Autodesk's business, consolidated results of operations, and financial condition. The design software market in particular is characterized by vigorous competition in each of the vertical markets in which Autodesk and its individual market groups compete, both by entry of competitors with innovative technologies and by consolidation of companies with complementary products and technologies.

The Design Solution family of products competes with products offered by companies such as Bentley Systems, Inc. ("Bentley"); Computervision Corporation (a subsidiary of Parametric Technology Corporation) ("Computervision"); CADAM Systems Company, Inc.; Diehl Graphsoft, Inc.; Eagle Point Software; International Microcomputer Software, Inc. ("IMSI"); Intergraph Corporation; Nemetschek Systems, Inc.; Visio Corporation ("Visio"); Visionary Design Systems; Hewlett-Packard Corporation; Parametric Technology Corporation; Structural Dynamics Research Corporation; Unigraphics; Dassault Systemes ("Dassault"); Solidworks Corporation (a subsidiary of Dassault); Baystate Technologies, Inc.; think3; MapInfo Corporation; Environmental Systems Research Institute ("ESRI"); Smallworldwide plc.; The Learning Company, a division of Mattel, Inc.; Micrografx Inc.; and others. The Discreet Segment (see Note 8) product offerings compete with products offered by Quantel Limited ("Quantel"), Avid Technology, Inc., Sony Corporation, Adobe Systems Inc., Macromedia, Inc., and Media 100 Inc. Certain of the competitors of Autodesk have greater financial, technical, sales and marketing, and other resources than Autodesk.

Autodesk believes that the principal factors affecting competition in its markets are product reliability, performance, ease of use, range of useful features, continuing product enhancements, reputation, price, and training. In addition, the availability of third-party application software is a competitive factor within the CAD market. Autodesk believes that it competes favorably in these areas and that its competitive position depends, in part, upon its continued ability to enhance existing products and to develop and market new products.

In April 1998, Autodesk received notice that the Federal Trade Commission ("FTC") has undertaken a nonpublic investigation to determine whether Autodesk or others have engaged in or are engaging in unfair methods of competition. The FTC has not made any claims or allegations regarding Autodesk's current business practices or policies, nor have any charges been filed. Autodesk intends to cooperate fully with the FTC in its inquiry. Autodesk does not believe that the investigation will have a material impact on its business or consolidated results of operations.

Product development and introduction. The software industry is characterized by rapid technological change as well as changes in customer requirements and preferences. The software products offered by Autodesk are internally complex, and despite extensive testing and quality control, may contain errors or defects ("bugs"). Defects or errors may occur in future releases of AutoCAD or other software products offered by Autodesk. These defects or errors could result in corrective releases to Autodesk's software products, damage to Autodesk's reputation, loss of revenues, an increase in product returns, or lack of market acceptance of its products, any of which could have a material and adverse effect on Autodesk's business and consolidated results of operations.

Autodesk believes that its future results will depend largely upon its ability to offer products that compete favorably with respect to reliability, performance, ease of use, range of useful features, continuing product enhancements, reputation, price, and training. Delays or difficulties may result in the delay or cancellation of planned development projects and could have a material and adverse effect on Autodesk's business and consolidated results of operations. Further, increased competition in the market for design, drafting, mapping, or multimedia software products could also have a negative impact on Autodesk's business and consolidated results of operations. More specifically, gross margins may be adversely affected if sales of low-end CAD products and AutoCAD upgrades, which historically have had lower margins, grow at a faster rate than Autodesk's higher-margin products.

The success of Autodesk's Discreet business unit will depend in part upon Autodesk's ability to enhance Discreet's existing systems and software and to develop and introduce new products and features which meet changing customer requirements and emerging industry standards on a timely basis. In addition, in connection with Discreet's recent acquisitions, Autodesk must fully integrate the edit* (formerly D-Vision OnLine), effect* (formerly Flint and Illuminaire Composition), paint* (formerly Illuminaire Paint), and light* (formerly Lightscape) products into its product line and operations. Discreet from time to time experienced delays in introducing new products and product enhancements, and the Discreet business unit may experience difficulties that could delay or prevent the successful development, introduction, and marketing of new products or product enhancements. In addition, such new products or product enhancements may not meet the requirements of the marketplace and achieve market acceptance. Any such failure could have a material adverse effect on Autodesk's business and consolidated results of operations. From time to time the Discreet business unit or others may announce products, features or technologies which have the potential to shorten the life cycle of or replace its then existing products. Such announcements could cause customers to defer the decision to buy or determine not to buy its products or cause its distributors to seek to return products to the Discreet business unit, any of which could have a material adverse effect on Autodesk's business and consolidated results of operations. In addition, product announcements by Silicon Graphics, Inc. ("SGI") and others in the past have caused customers to defer their decision to buy or determine not to buy Discreet's products. In addition, products or technologies developed by others may render the Discreet business unit's products or technology noncompetitive or obsolete.

Certain of Autodesk's historical product development activities have been performed by independent firms and contractors, while other technologies are licensed from third parties. Autodesk generally either owns or licenses the software developed by third parties. Because talented development personnel are in high demand, independent developers, including those who have developed products for Autodesk in the past, may not be able to provide development support to Autodesk in the future. Similarly, Autodesk may not be able to obtain and renew license agreements on favorable terms, if at all, and any failure to do so could have a material adverse effect on Autodesk's business and consolidated results of operations.

Autodesk's business strategy has historically depended in large part on its relationships with third-party developers, who provide products that expand the functionality of Autodesk's design software. Certain developers may elect to support other products or otherwise experience disruption in product development and delivery cycles. This disruption in particular markets could negatively impact these third-party developers and end users, which could have a material adverse effect on Autodesk's business and consolidated results of operations. Further, increased merger and acquisition activity currently experienced in the technology industry could affect relationships with other third-party developers and thus adversely affect operating results.

International operations. Autodesk anticipates that international operations will continue to account for a significant portion of its consolidated revenues. Risks inherent in Autodesk's international operations include the following: unexpected changes in regulatory practices and tariffs; difficulties in staffing and managing foreign operations; longer collection cycles for accounts receivable; potential changes in tax laws; greater difficulty in protecting intellectual property; and the impact of fluctuating exchange rates between the U.S. dollar and foreign currencies in markets where Autodesk does business. Autodesk's risk management strategy uses derivative financial instruments in the form of forward foreign exchange contracts for the purpose of hedging foreign currency market exposures of underlying assets, liabilities, and other obligations which exist as a part of its ongoing business operations. Autodesk does not enter into derivative contracts for the purpose of trading or speculative transactions. Autodesk's international results may also be impacted by general economic and political conditions in these foreign markets. These and other factors may have a material adverse effect on Autodesk's future international operations and consequently on Autodesk's business and consolidated results of operations.

Dependence on distribution channels. Autodesk sells its software products primarily to distributors and resellers (value-added resellers, or "VARs"). Autodesk's ability to effectively distribute products depends in part upon the financial and business condition of its VAR network. Although Autodesk has not recently experienced any material problems with its VAR network, computer software dealers and distributors are typically not highly capitalized and have experienced difficulties during times of economic contraction and may do so in the future. While no single customer accounted for more than 10 percent of Autodesk's consolidated revenues in fiscal years 1999, 1998 or 1997, the loss of or a significant reduction in business with any one of Autodesk's major international distributors or large U.S. resellers could have a material adverse effect on Autodesk's business and consolidated results of operations in future periods.

Product returns. With the exception of certain European distributors, agreements with Autodesk's VARs do not contain specific product-return privileges. However, Autodesk permits its VARs to return product in certain instances, generally during periods of product transition and during update cycles. Management anticipates that product returns in future periods will continue to be impacted by product update cycles, new product releases, and software quality.

Autodesk establishes reserves, including reserves for stock balancing and product rotation, based on estimated future returns of product and after taking into account channel inventory levels, the timing of new product introductions, and other factors. While Autodesk maintains strict measures to monitor channel inventories and to provide appropriate reserves, actual product returns may differ from its reserve estimates, and such differences could have a material adverse effect on Autodesk's business and consolidated results of operations.

Intellectual property. Autodesk relies on a combination of patents, copyright and trademark laws, trade secrets, confidentiality procedures, and contractual provisions to protect its proprietary rights. Despite such efforts to protect its proprietary rights, unauthorized parties from time to time have copied aspects of Autodesk's software products or have obtained and used information that Autodesk regards as proprietary. Policing unauthorized use of Autodesk's software products is time-consuming and costly. While Autodesk has received some revenues resulting from the unauthorized use of its software products, it is unable to measure the extent to which piracy of its software products exists, and software piracy can be expected to be a persistent problem. Autodesk's means of protecting its proprietary rights may not be adequate, and its competitors may independently develop similar technology. Autodesk expects that software product developers will be increasingly subject to infringement claims as the number of products and competitors in its industry segments grows and as the functionality of products in different industry segments overlaps. Infringement or invalidity claims (or claims for indemnification resulting from infringement claims) may be asserted against Autodesk, and any such assertions could have a material adverse effect on its business. Any such claims, whether with or without merit, could be time-consuming, result in costly litigation and diversion of resources, cause product shipment delays, or require Autodesk to enter into royalty or licensing agreements. In addition, such royalty or license agreements, if required, may not be available on acceptable terms, if at all, which could have a material adverse effect on Autodesk's business and consolidated results of operations.

Autodesk also relies on certain software that it licenses from third parties, including software that is integrated with internally developed software and used in its products to perform key functions. These third-party software licenses may not continue to be available on commercially reasonable terms, and the software may not be appropriately supported, maintained, or enhanced by the licensors. The loss of licenses to, or inability to support, maintain, and enhance any such software could result in increased costs, or in delays or reductions in product shipments until equivalent software could be developed, identified, licensed, and integrated, which could have a material adverse effect on Autodesk's business and consolidated results of operations.

Until fiscal year 1996, substantially all of Discreet's systems were sold without written license agreements. Autodesk may be involved in litigation relating to these sales, and the outcome of any such litigation may be more unfavorable to Autodesk as a result of such omissions. The Discreet business unit uses both software and hardware keys with respect to its systems and software but otherwise does not copy-protect its systems and software. It may be possible for unauthorized third parties to copy the Discreet business unit's products or to reverse-engineer or obtain and use information that the Discreet business unit regards as proprietary. Competitors may independently develop technologies that are substantially equivalent or superior to the Discreet business unit's technologies.

Attraction and Retention of Employees. Autodesk's continued growth and success of the Company depends significantly on the continued service of highly skilled employees. Competition for these employees in today's marketplace, especially in the technology industries, is intense. Autodesk's ability to attract and retain employees is dependent on a number of factors including its continued ability to grant stock incentive awards. Autodesk may not be successful in continuing to recruit new personnel or retain existing personnel. The loss of key employees or inability to recruit new employees could have a material adverse impact on Autodesk. In addition, Autodesk may experience increased compensation costs to attract and retain skilled personnel.

Impact of Year 2000. Some of the computer programs used by Autodesk in its internal operations rely on time-sensitive software that was written using two digits rather than four to identify the applicable year. These programs may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities. Autodesk has completed the remediation phase for business systems with the exception of some desktop remediation in Latin America, Asia and Canada scheduled to be completed by the end of the year. The testing phase of a six-phase year 2000 compliance program related to information technology ("IT") systems will continue through the end of November 1999 with all current milestones being met. The business continuity planning or final phase is in process with final detailed planning expected to be complete in November. During the third quarter of fiscal year 2000, Autodesk spent approximately $0.15 million on the IT year 2000 project. Autodesk expects to spend an additional $0.15 million to complete this project. All expenditures to date have been captured either in prior year or current year budgets. Autodesk believes that the key components of the IT year 2000 project have either been replaced or remediated. Further, Autodesk estimates that if any component of the current systems fail due to year 2000 related issues, Autodesk would be able to divert people and systems traffic, causing delays of between one to three days in service interruptions and processing Autodesk information. Autodesk has a contingency plan in place in order to prevent the loss of critical data, which includes the back up of all critical data processing interactions and a disaster recovery plan. However, there may be a delay in the completion of these procedures and the cost of such procedures may exceed original estimates, either of which could have a material adverse effect on future results of operations.

In addition to correcting the business and operating systems used by Autodesk in the ordinary course of business as described above, Autodesk has also reviewed its non-IT systems to determine year 2000 compliance of these systems. Autodesk is in a monitoring program that continually checks the status of all non-IT systems and does not anticipate an adverse impact on service and business capabilities with regard to these non-IT systems. Expenditures related to these monitoring procedures have been minimal and are not expected to be significant in future periods.

Autodesk has also tested and continues to test all products it currently produces internally for sale to third parties to determine year 2000 compliance. Autodesk is currently in the third phase of a three-phase year

2000 compliance testing and documentation program that is related to its products. There have been delays in the submission of some testing results, but all documentation should be ready by the end of the year. During the third quarter of fiscal year 2000, Autodesk spent approximately $0.23 million on the product year 2000 project. Autodesk expects to spend an additional $0.15 million to complete this project. All expenditures to date have been captured either in prior year or current year budgets. Currently-sold products either have been found to be substantially compliant or are currently being tested for compliance. However, many Autodesk products run on operating systems or hardware produced and sold by third-party vendors. These operating systems or hardware may not be converted in a timely manner, or at all, and any failure in this regard may cause Autodesk products not to function as designed. Autodesk will continue to evaluate each product in the currently supported inventory. Any future costs associated with ensuring Autodesk's products are compliant with the year 2000 are not expected to have a material impact on Autodesk's results of operations or financial position. Furthermore, commentators have stated that a significant amount of litigation may arise out of year 2000 compliance issues, and Autodesk is aware of a growing number of lawsuits against other software vendors. Because of the unprecedented nature of such litigation, it is uncertain whether and to what extent Autodesk may be affected by it.

Single European Currency. Autodesk is in the process of addressing the issues raised by the introduction of the Single European Currency ("Euro") as of January 1, 1999 and during the transition period ending January 1, 2002. Autodesk will continue to modify the internal systems that will be affected by this conversion during fiscal year 2000, and does not expect the costs of further system modifications to be material. Autodesk may not be able to complete such modifications to comply with Euro requirements, which could have a material adverse effect on Autodesk's operating results. Autodesk is currently evaluating the impact of the introduction of the Euro on its foreign exchange activities, functional currency designations, and pricing strategies in the new economic environment. In addition Autodesk faces risks to the extent that banks and vendors upon whom Autodesk relies and their suppliers are unable to make appropriate modifications to support Autodesk's operations with respect to Euro transactions. While Autodesk may continue to evaluate the impact of the Euro, management does not believe its introduction will have a material adverse effect upon Autodesk's results of operations or financial condition.

Risks associated with acquisitions and investments. Autodesk periodically acquires or invests in businesses, software products, and technologies which are complementary to Autodesk's business through strategic alliances, debt and equity investments, and the like. The risks associated with such acquisitions or investments include, among others, the difficulty of assimilating the operations and personnel of the companies, the failure to realize anticipated synergies, and the diversion of management's time and attention. In addition, such investments and acquisitions may involve significant transaction-related costs. Autodesk may not be successful in overcoming such risks and such investments and acquisitions may have a material adverse impact on Autodesk's business, financial condition, or results of operations. In addition, such investments and acquisitions may contribute to potential fluctuations in quarterly results of operations due to merger-related costs and charges associated with eliminating redundant expenses or write-offs of impaired assets recorded in connection with acquisitions, any of which could negatively impact results of operations for a given period or cause lack of linearity quarter to quarter in Autodesk's operating results and financial condition.

Failure to achieve beneficial synergies from Discreet acquisition. Autodesk has acquired Discreet with the expectation that the acquisition will result in beneficial synergies. These include mutual benefits from complementary strengths in the 3D modeling and animation tools markets, the competitive advantages resulting from offering a comprehensive suite of integrated product offerings, combined industry experience and market knowledge, and shared distribution channels. Achieving these anticipated synergies will depend on a number of factors including, without limitation, the successful integration of Autodesk and Discreet's operations and general and industry-specific economic factors. Even if Autodesk and Discreet are able to integrate their operations and economic conditions remain unchanged, the anticipated synergies may not be achieved. The failure to achieve such synergies could have a material adverse effect on Autodesk's business, results of operations, and financial condition.

The future financial performance of Autodesk's recently acquired Discreet business unit will depend in part on the successful development, introduction, and customer acceptance of existing and new or enhanced products. In addition, in order for the unit to achieve sustained growth, the market for its systems and software must continue to develop, and Autodesk must expand this market to include additional applications within the film and video industries and develop or acquire new products for use in related markets. Autodesk may not be successful in marketing its existing or new or enhanced products. In addition, as Autodesk enters new markets, distribution channels, technical requirements, and levels and bases of competition may be different from those in Autodesk's current markets; Autodesk may not be able to compete favorably.

Integration of Discreet's operations and technologies. Achieving the anticipated benefits of the Discreet acquisition will depend in part upon whether the integration of the two companies' businesses is accomplished in an efficient and effective manner, and this may not occur. The combination of the two companies will require, among other things, integration of the companies' respective operations, products, technologies, management information systems, distribution channels, and key personnel and the coordination of their sales, marketing, and research and development efforts. In particular, Autodesk will be required to integrate its existing sales channel, which consists principally of independent resellers, with Discreet's sales force, which typically sells product directly to customers. As a result of these and other factors, the integration may not be accomplished smoothly or successfully, if at all. If significant difficulties are encountered in the integration of the existing operations, products, or technologies or the development of new products and technologies, resources could be diverted from new product development, and delays in new product introductions could occur. Compared to Autodesk's products, Discreet's products have traditionally experienced longer, more complex sales cycles. Autodesk may not be able to take full advantage of the combined sales efforts. In addition, the difficulties of integrating Autodesk and Discreet may be increased by the necessity of coordinating organizations with distinct corporate cultures and widely dispersed operations in two different countries. The integration of operations and technologies of these entities is a significant challenge to Autodesk management and will require substantial effort and dedication of management and other personnel, which may distract their attention from the day-to-day business of these entities, the development or acquisition of new technologies, and the pursuit of other business opportunities. In addition, certain Discreet product offerings currently include computer hardware, which may present business issues as to which Autodesk management has limited experience. Failure to successfully accomplish the integration of the two companies' operations, technologies, and personnel would likely have a material adverse effect on Autodesk's business, financial condition and results of operations. In addition, during the period of integration, aggressive competitors may undertake initiatives to attract customers or employees through various incentives, which could have a material adverse effect on the business, results of operations, and financial conditions of Autodesk.

Discreet's customers. Discreet's customers may not continue their current buying patterns in light of the acquisition. Certain customers may defer purchasing decisions as they evaluate the acquisition, other recent acquisitions and product announcements in the multimedia and design software industries, Autodesk's postacquisition product strategy, current and anticipated product offerings of competitors, and any other outside forces which may affect customer buying patterns. Customers may ultimately decide to purchase competitors' products in lieu of Discreet products. Historically, Discreet and Autodesk have had significantly different types of customers. These different customer types may evaluate postacquisition Autodesk differently. The decision of customers to defer their purchasing decisions or to purchase products elsewhere could have a material adverse effect on Autodesk's business, results of operations, and financial condition.

Integration of operations of a non-U.S. company. Cross-border acquisitions entail certain special risks beyond those normally encountered in a domestic acquisition. These include the difficulty of integrating employees from a different corporate culture into the acquiring organization; the need to understand different incentives that motivate employees in a non-U.S. company; the greater difficulty of transplanting the acquiring company's corporate culture to an organization that is physically distant; and the difficulty and expense of relocating employees from one country to another in the event of an internal group restructuring following an acquisition. These factors can reduce the likelihood of the long-term success of a cross-border acquisition. Although Autodesk derives the majority of its revenues from non-U.S. sales and has significant operations outside the United States, it has limited experience integrating the management, sales, product development, and marketing organizations of a significant non-U.S. business with its existing operations. Although Discreet has sales and marketing operations in the United States and derives a significant portion of its revenue from U.S. sales, its management and product development personnel are predominantly based in Canada. Autodesk may not be able to successfully integrate the personnel and operations of Discreet into the existing Autodesk organization.

Single market for Discreet's product offerings; risks associated with expansion into new markets. To date, Discreet's products have been purchased primarily by creative professionals for use in production and postproduction in the film and video industries. In order for Autodesk's Discreet business unit to achieve sustained growth, the market for Discreet's product offerings must continue to develop, and Autodesk must expand this market to include additional applications within the film and video industries and develop new products for use in related markets. Discreet recently announced its multiplatform software initiative to develop and market software across Apple Macintosh, Microsoft Windows NT, and Unix operating systems, in addition to its existing real-time turnkey systems solutions, targeted at two new market segments: institutional customers and prosumers (professional consumers). While Autodesk believes that the market recognition which Discreet achieved through sales of Flame(R), Smoke(R), effect*, Inferno(R), and Fire(R) systems to creative professionals will facilitate Autodesk's marketing efforts in new markets, Autodesk's Discreet business unit may not be able to successfully develop and market systems and software for other markets, and, even if it does so, such systems and software may not be accepted at a rate, and in levels, sufficient to maintain growth. Further, the distribution channels, technical requirements, and levels and bases of competition in other markets are different than those in the Discreet business unit's current market, so the Discreet business unit may not be able to compete favorably in those markets.

Liquidity and Capital Resources

Cash, cash equivalents, and marketable securities, which consist primarily of high-quality municipal bonds, tax-advantaged money market instruments and U.S. treasury bills, totaled $549.9 million at October 31, 1999, compared to $428.0 million at January 31, 1999. The $121.9 million increase in cash, cash equivalents, and marketable securities was due primarily to $26.6 million of cash generated from operations, $149.3 million of net proceeds from the issuance of common stock, largely related to a 3.0 million share issuance in March 1999, and $5.6 million of proceeds from the disposition of fixed assets. These increases were partially offset by the acquisition of VISION ($26.0 million), purchases of long-term assets ($16.6 million) and dividends paid ($11.0 million).

In November 1999, management announced a plan to repurchase up to 8.0 million shares of the Company's common stock. The primary purpose of the stock repurchase program is to help offset the dilution to earnings per share caused by the issuance of stock under the Company's employee stock plans. The common stock will be purchased from time to time at the direction of management, either directly or through derivative instruments. The number of shares to be purchased and the timing of purchases will be based on several factors, including general market conditions and the trading price of Autodesk common stock. Purchases may be made in the open market or in privately negotiated transactions and will be funded from available working capital.

The Discreet business unit has a revolving demand line of credit with a bank, under which it may borrow up to Cdn$7.0 million (approximately $4.8 million at October 31, 1999). Additionally, the agreement provides for a Cdn$0.6 million (approximately $0.4 million at October 31, 1999) demand leasing facility, and a Cdn$0.6 million (approximately $0.4 million at October 31, 1999) demand research and development tax credit facility. As of October 31, 1999, there were no amounts outstanding under the demand leasing and demand research and development tax credit facilities. The amount available under the revolving demand line of credit was reduced by letters of guarantee totaling Cdn$5.6 million (approximately $3.8 million at October 31, 1999).

In addition to Discreet's line of credit, Autodesk has an unsecured $40.0 million bank line of credit, of which $20.0 million is guaranteed, that may be used from time to time to facilitate short-term cash flow. At October 31, 1999, there were no borrowings outstanding under this credit agreement, which expires in January 2000. Management intends to maintain adequate credit lines to carry on its business.

Principal commitments at October 31, 1999 consisted of obligations under operating leases for facilities. Autodesk believes that its existing cash, cash equivalents, marketable securities, available line of credit, and cash generated from operations will be sufficient to satisfy its currently anticipated cash requirements for the next twelve months.

Longer-term cash requirements, other than normal operating expenses, are anticipated for development of new software products including the incremental product offerings resulting from the acquisitions of Discreet, Genius, and VISION and enhancement of existing products; financing anticipated growth; dividend payments; the share repurchase program; and the acquisition of businesses, software products, or technologies complementary to Autodesk's business. Autodesk believes that its existing cash, cash equivalents, marketable securities, available line of credit, and cash generated from operations will be sufficient to satisfy its currently anticipated longer-term cash requirements.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Autodesk is a party to various legal proceedings arising from the normal course of business activities. While the outcome of these matters cannot be predicted with certainty, in management's opinion, resolution of these matters is not expected to have a material adverse impact on Autodesk's consolidated results of operations or its financial position. However, depending on the amount and timing, an unfavorable resolution of a matter could materially affect Autodesk's future results of operations or cash flows in a particular period.

On September 7, 1999, the Superior Court in Marin County, California, dismissed the purported class action lawsuit against Discreet and its directors with prejudice as to all defendants named in the Amended Complaint, with each side bearing their own expenses, costs and fees. Under the Dismissal Stipulation, no consideration is to be paid to plaintiffs or the proposed class.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits

27.0 Financial Data Schedule for the period ended October 31, 1999

Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended October 31, 1999.

SIGNATURES

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

Dated: December 10, 1999

AUTODESK, INC.
(Registrant)

/s/ CAROL A. BARTZ

Carol A. Bartz
Chairman, President and Chief Executive Officer

/s/ STEVE CAKEBREAD

Steve Cakebread
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

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JAN-31-2000
FEB-01-1999
OCT-31-1999
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(0.25)
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