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

FORM 10-K

 X   ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
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EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED JANUARY 31, 1999

____ 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)	(Zip Code)

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

Title of each class	Name of each exchange on which registered
None	None

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

COMMON STOCK, $0.01 PAR VALUE
(Title of Class)

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 [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting Common Stock held by non-affiliates of the Registrant, based upon the closing sale price of the Common Stock on April 22, 1999 as reported on the NASDAQ National Market, was approximately $1,039,000,000. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of April 22, 1999, Registrant had outstanding 58,880,000 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Stockholders for the fiscal year ended January 31, 1999 are incorporated by reference in Parts II and IV. Portions of the Proxy Statement for Registrant's 1999 Annual Meeting of Stockholders to be held June 24, 1999 are incorporated by reference in Part III.

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PART I

FORWARD-LOOKING INFORMATION

The forward-looking statements included in this report, which reflect management's best judgment based on factors currently known, involve risks and uncertainties. Actual results could differ materially from those anticipated in the forward-looking statements included herein as a result of a number of factors, including but not limited to those discussed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," incorporated by reference to pages 2 through 21 of the Company's 1999 Annual Report to Stockholders.

ITEM 1. BUSINESS

GENERAL

Autodesk, Inc. ("Autodesk" or the "Company") was incorporated in California in 1982 and was reincorporated in Delaware in May 1994. The Company's two-dimensional ("2D") and three-dimensional ("3D") products are used across industries and in the home for architectural design, mechanical design, spatial data management and mapping, animation, and visualization applications. The Company's flagship product, AutoCAD(R), is one of the world's leading computer-aided design ("CAD") tools, with an installed base of more than 2.1 million units worldwide. The Company's software products are sold worldwide, primarily through a network of dealers and distributors.

In February 1995, the Company realigned its internal marketing and development organizations around key market groups that most closely match Autodesk's customer base. During fiscal year 1998, the Company defined a new market group, the Personal Solutions Group ("PSG"), whose products are targeted to individual users as well as professionals. Each market group incorporates product development, quality assurance, technical publications, and product industry marketing. The Company has aligned its market groups into three segments: the Design Solutions segment (which includes the AEC, MCAD, and GIS market groups, as well as AutoCAD products), the Personal Solutions segment, and the Kinetix segment. The Company's market groups are discussed below.

In March 1999, Autodesk acquired Discreet Logic Inc. ("Discreet"), in a business combination accounted for as a pooling of interests. In the acquisition, Autodesk acquired all of the voting stock of Discreet, issuing 0.33 shares of Autodesk common stock or 0.33 exchangeable shares for each outstanding share of Discreet. The transaction resulted in the issuance of an aggregate of approximately 10 million shares of Autodesk common stock and exchangeable shares.

Architecture, Engineering, and Construction ("AEC") AEC software from the Company and third party developers is used to automate every phase of a building's life cycle-from conceptual design through construction, maintenance, and renovation. The architecture, engineering, construction, facilities management, process & power, and land management industries use AEC products. During fiscal year 1998, the Company expanded its product offerings for the AEC Market Group by acquiring Softdesk, Inc. in March 1997. Principal AEC products include AutoCAD Architectural Desktop(TM), AutoCAD(R) Land Development Desktop, and Autodesk(R) CAD Overlay(R).

Mechanical Computer-Aided Design ("MCAD") The Company's Mechanical CAD Market Group is dedicated to providing mechanical engineers, designers, and drafters with advanced, value-based software solutions that are designed to solve their professional design challenges. Autodesk's premier MCAD product is Mechanical Desktop(R). Following the acquisition of Genius CAD Software GmbH ("Genius") in May 1998, Autodesk also offers the Genius(TM) AutoCAD product.

Geographic Information Systems ("GIS") The Company's GIS Market Group strategy is to provide a family of easy-to-use mapping and GIS technology to help large and small businesses and governments manage their assets and infrastructure. The GIS Market Group assists automated mapping/facilities managers, as well as GIS and CAD users, to share mapping, GIS, and associated information in an enterprise environment. The Company's current GIS products include AutoCAD Map(R), Autodesk MapGuide(R), and Autodesk World(R).

Personal Solutions Group ("PSG") The PSG Market Group develops easy-to-use, affordable tools for professionals, occasional users, or consumers who draft, diagram, and draw, thus expanding the Company's traditional customer base of architects and engineers. PSG products also enable non-CAD users to visually communicate with CAD users. PSG products include AutoCAD LT(R), Actrix(TM) Technical, and AutoSketch(R).

Kinetix(R) The Kinetix division of Autodesk is devoted to bringing powerful 3D content-creation software to computer-industry professionals focused on two markets: entertainment (film, broadcast video, and interactive games) and design conceptualization and visualization. Kinetix provides two core platform products - -3D Studio MAX(R) and 3D Studio VIZ(R), that specifically focus on these markets.

As noted above, Autodesk acquired Discreet in the first quarter of fiscal year 2000. Discreet develops, assembles, markets and supports nonlinear digital systems and software for creating, editing, and compositing imagery and special effects for film, video and HDTV. Discreet products include flame* and inferno*.

PRODUCTS

The Company's Design Solutions segment includes the following products:

AutoCAD

AutoCAD software is a general-purpose CAD tool used independently and in conjunction with specific applications designed to work with AutoCAD in fields ranging from architecture and mechanical design to plant design and mapping. Professionals utilize AutoCAD for design, modeling, drafting, mapping, rendering, and management tasks. AutoCAD runs on Microsoft Windows 95, Windows 98, and Windows NT for Intel.

AutoCAD(R) Release 14 was introduced in May 1997. Built for speed and efficiency, AutoCAD Release 14 includes enhancements in areas that most influence productivity, including: precision drawing tools such as AutoSnap(TM), data-sharing features like raster image and reference file clipping, photorealistic rendering, solid fills, and TrueType fonts.

AutoCAD software's open-system architecture allows users to adapt AutoCAD to unique professional requirements with any of more than 5,000 independently developed add-on applications. Many of these applications are based on ObjectARX(TM) technology, a new generation of C++-based application programming interfaces ("APIs"). ObjectARX-based applications utilize AutoCAD software's object-oriented capabilities.

Sales of AutoCAD and AutoCAD upgrades accounted for approximately 62 percent, 70 percent, and 70 percent of Autodesk's revenues in fiscal years 1999, 1998, and 1997, respectively. On a stand-alone basis, AutoCAD and AutoCAD upgrades were 51 percent, 65 percent, and 68 percent of consolidated revenues in fiscal years 1999, 1998, and 1997, respectively. During fiscal year 1999, approximately 263,000 new AutoCAD licenses were added worldwide, compared to 244,000 and 207,000 licenses added during fiscal years 1998 and 1997, respectively.

AutoCAD(R) OEM

AutoCAD OEM ("Original Equipment Manufacturer") for Windows-based operating systems is a selectively licensed CAD engine offering a complete application-development environment for creating and delivering targeted or niche solutions with scaled feature sets. It is for developers, system integrators, and commercial software developers who require an embeddable CAD system which gives them the ability to scale and control the application feature set. AutoCAD OEM provides developers with a complete toolkit of AutoCAD features and APIs including ObjectARX capabilities, a full suite of drawing and editing functions as well as AutoLISP(R) and a LISP API. These capabilities enable development of new products for new markets untapped by traditional CAD products and solutions.

Mechanical Desktop

Mechanical Desktop software is an integrated software application that unites advanced 2D and 3D mechanical design capabilities for PCs. Mechanical Desktop contains integrated modules for fully parametric feature-based solid modeling, surface modeling, and assembly modeling; 2D design/drafting and bi-directional associative drafting; as well as a built-in Autodesk(R) IGES Translator, which enables users to accurately exchange IGES (Initial Graphics Exchange Specification) data with other systems. Mechanical Desktop Release 3.0, which was released in August 1998, includes numerous performance enhancements. Individual Face Drafting, Parting Line Definition, Part Splitting, Face Splitting, 3D Helical Sweep, 3D Lofting, Feature Suppression, Global Design Variables, Sketch Editing, new Balloon, Bill of Material, and Part List Functionality and Drafting Standards Support, are among the advanced features included in the latest release of Mechanical Desktop software.

Genius(TM) AutoCAD

For mechanical designers who work primarily in 2D with AutoCAD, Genius(TM) 14 is a complete 2D solution that offers all the power of standard part libraries and automation tools that reduce design cycle and drawing production time. The functionality included in Genius 14 includes: Drawing borders & Title blocks, PowerEdit, PowerSnaps, PowerRecall, PowerDimension, In line create & edit, Dim break with associativity, Detail views, Standard parts, Nuts & Bolts.

AutoCAD Map

AutoCAD Map software is the first AutoCAD-based automated-mapping product for professional planners, utility managers, and technicians who need to create and maintain their own maps and use their data for engineering-based analysis and planning. Built with AutoCAD software, AutoCAD Map focuses on five key GIS business-related functions: digital map creation, analysis, maintenance of up-to-date maps, data exchange, and publishing. The API in AutoCAD Map enables developers to build vertical applications for industries such as telecommunications, utilities, oil and gas, state and local government, and natural resource and environmental engineering. AutoCAD Map also contains ObjectARX capabilities.

Autodesk MapGuide

Autodesk MapGuide is a Web-based GIS technology that is designed to allow corporate customers and developers to use the Internet and business Intranets to rapidly deploy decision support systems having a geographic component. Suited for a wide range of users--from GIS professionals to the casual computer user across a scale from the small to the very large enterprise--Autodesk MapGuide software enables users to access and query digital maps over a network, and permits users to display and analyze geographic data for applications such as tracking customers, providing digital map-based information to dispersed staff, allocating resources, and managing facilities infrastructure.

Autodesk World

Autodesk World allows for the integration and analysis of geographic-based data within a Windows environment. It provides users with data capture, edit, analysis, integration, and presentation functionality for spatially based information, including raster, vector (both CAD and GIS) data, and attributes associated with those data. Autodesk World features Object Linking and Embedding ("OLE"), which allows users to link drawings to other Windows applications such as Microsoft Word or Excel. Autodesk World's application programming interfaces and integrated Visual Basic for Applications 5.0 scripting environment enable easy customization and application development.

AutoCAD Architectural Desktop

AutoCAD Architectural Desktop software offers a new level of architectural design tools built on the speed and power of AutoCAD. Supporting the architectural design process from conceptual design to design development, through construction documentation, AutoCAD Architectural Desktop features industry-specific 2D production drafting functionality as well as integrated and accessible 3D design options. Users benefit from simplified mass modeling, intelligent building components, style definitions, and layer management according to industry standards. AutoCAD Architectural Desktop software's data continuity throughout the entire design process enables efficiency and productivity by eliminating the need to recreate design and drafting data.

AutoCAD Land Development Desktop

AutoCAD Land Development Desktop software is built on the power and speed of AutoCAD / AutoCAD Map and is specifically designed for civil engineering, surveying, and land planning professionals worldwide. This innovative software contains specialized features such as COGO and Map Creation, Terrain Modeling, Alignments, Parcels and Project Data Management. Users will benefit from an easy to use interface and overall integration of the product. With project data stored in a central location, AutoCAD Land Development Desktop provides an interoperable solution to help the entire project team intelligently share large amounts of drawing and project data in an efficient and accurate way.

Autodesk CAD Overlay

Autodesk CAD Overlay software enables users to display, edit, and manipulate raster images in color, grayscale, and binary formats inside AutoCAD Release 14, AutoCAD Map, Mechanical Desktop, AutoCAD(R) Mechanical, AutoCAD Land Development Desktop, or AutoCAD Architectural Desktop drawings. Autodesk CAD Overlay software allows users to integrate scanned drawings with AutoCAD line types and then plot hybrid raster/vector drawings. It enables users to treat raster entities as if they were vector entities for quick, efficient manipulation. CAD Overlay also allows users to manipulate, and edit, aerial photos and satellite imagery, for analysis and presentation purposes inside AutoCAD.

The Company's Personal Solutions segment includes the following products:

AutoCAD LT

AutoCAD LT 98 is a low-cost 2D CAD application intended for CAD managers, designers, and engineers who need a powerful, stand-alone CAD tool, but who do not require the advanced feature set in AutoCAD. AutoCAD LT 98 software contains an extensive 2D drafting toolset as well as 3D lines and polylines with quick shading and hidden-line removal. Other features include a Start-Up dialog box and Drawing Set-Up wizards to help the user create or open a drawing quickly; real-time pan and zoom; a Drag-and-Drop Content Explorer(TM) featuring thousands of industry-standard symbols; and Integrated Internet Tools to open or save drawings directly to the Internet. AutoCAD LT operates in the Windows environment with pull-down menus, customizable toolbar, toolbox, menus, and scripts, as well as dialog boxes and icons. It supports the Windows Clipboard, as well as ActiveX Automation. AutoCAD LT 98 is fully compatible with Windows 98 and Windows NT 4.X and has built-in Microsoft Office 97 compatibility.

AutoSketch

AutoSketch Release 6 is an affordable, easy-to-use precision drawing tool for technical professionals who occasionally create conceptual drawings and sketches. AutoSketch Release 6 reduces the complexity of professional CAD by providing "drawing guides" that help users get started quickly and easily on any type of technical drawing. Incorporating a variety of new productivity and ease-of-use features such as 3D Effects, an AutoArray tool, and Dynamic Pan & Zoom, AutoSketch Release 6 is a powerful, yet affordable tool that fulfills the precision drawing needs of a broad range of users.

Actrix

Actrix is a family of easy-to-use diagramming solutions that allows customers to quickly create a range of dynamic drawings, including engineering schematics, facilities plans, network diagrams, and process flow charts. Actrix is also a modern development platform for creating custom corporate solutions and third party applications. Actrix Technical, the first entry in the Actrix product family, shipped in November 1998. Actrix Technical is ideal for engineers, architects, facilities planners, network managers, and project managers who need to create diagrams, schematics, and content-based layouts. With its AutoCAD interoperability and user friendliness, Actrix Technical can be used as an adjacent-seat diagramming solution for organizations and design teams who use AutoCAD and specifically for non-CAD users. Actrix delivers next-generation ActiveShapes(TM) objects whose built-in intelligence makes them automatically snap, orient, and align with accuracy. Actrix is a Windows application, and it supports file formats like DXF, TIFF, BMP, HTML, JPEG, and DWF.

The principal product offerings from the Kinetix segment are discussed below:

3D Studio MAX

3D Studio MAX R2 software, which began shipping in the third quarter of fiscal year 1998, is a 3D modeling and animation software package specifically written to take advantage of advanced features offered by the Windows NT operating system. With a real-time interface, multiple-processor support, and 3D graphics acceleration capabilities, 3D Studio MAX delivers workstation-class performance and functionality to PCs.

The intuitive interface eliminates many of the commonly accepted boundaries between modeling, rendering, and animation, and offers instant feedback; users can see the results of their actions in real time, as they are applied. Shaded views with real-time feedback allow users to visualize natural, real-world environments in which they can directly manipulate objects, regardless of scene complexity. Because 3D Studio MAX software maintains a data history of geometry creation and modification, users can return to and change any step, at any time, without having to redo prior work. 3D Studio MAX is also the only environment that can run Character Studio(R), a powerful character-animation and skinning plug-in software product offered by Autodesk.

3D Studio VIZ

3D Studio VIZ, introduced in May 1997, is a design tool that enables users to express ideas on-screen, in full 3D. Architectural models, engineering samples, and construction-site previews all become a quick reality with this software tool. Real-world feedback can be incorporated into the design, and users can explore more options with their customers more cost-effectively. 3D Studio VIZ and AutoCAD files are easily exchanged and allow for the development of advanced engineering or architectural visualizations. 3D Studio VIZ animates, so clients can take a simulated walkthrough of a site, understand a structure, or view a part as it will operate in the final assembly. The 3D Studio VIZ user interface employs CAD-like creation tools including fillets, trims, and chamfers.

The principal product offerings from Autodesk's new Discreet business unit are discussed below:

flame*

flame* is an on-line, resolution-independent, non-linear, uncompressed digital system. The system is used by creative professionals to create, edit and composite special visual effects in an on-line, real-time environment. Easily integrated into a suite environment and possessing the power and features necessary to serve as the core of a fully digital suite, flame* is designed to allow the operator to create desired effects with near instantaneous feedback. A complete flame* system includes the flame* software, and SGI Octane workstation, a stone* disk array and various I/O devices.

inferno*

inferno* is an on-line, non-linear, resolution-independent, uncompressed digital system providing all the features of flame* with film tools, and increased image resolution and color control for digital film work. The system also features tools for grain management, wire and scratch removal and colour calibration. A compete inferno* system includes the inferno* software, an SGI Onyx2 workstation, a stone* disk array and various I/O devices.

PRODUCT DEVELOPMENT AND ENHANCEMENT

The software industry is characterized by rapid technological change in computer hardware, operating systems, and software. To keep pace with this change, Autodesk maintains an aggressive program of new product development. Autodesk dedicates considerable resources to research and development to further enhance its existing products and to create new products and technologies. During fiscal years 1999, 1998, and 1997, Autodesk incurred $142.8 million, $122.4 million, and $93.7 million, respectively, for software design, development, product localization, and project-management activities (excluding capitalized software development costs of $1.3 million and $2.2 million during fiscal year 1999 and 1998, respectively; no software development costs were capitalized during fiscal year 1997).

The majority of Autodesk's basic research and product development has been performed in the United States, while translation and localization of foreign-market versions, as well as some product development, are performed by development teams or contractors in the local markets. Autodesk's product-related functions in Europe, including software development, localization, quality assurance, and technical publications, are centralized in Neuchatel, Switzerland. Production in Europe is centralized in Ireland, and production in Asia Pacific is centralized in Singapore.

Autodesk intends to continue recruiting and hiring experienced software developers and to consider the licensing and acquisition of complementary software technologies and businesses. In addition, Autodesk will continue to actively collaborate with and support independent software developers who offer products that enhance and complement AutoCAD software and other products offered by Autodesk.

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. Such 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 product 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 post acquisition 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 existing license agreements on favorable terms, if at all, which could have a material and 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. Such 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.

Additionally, Autodesk's development efforts may not result in the timely introduction of new products, and such new products may not be commercially successful. Failure to successfully develop new products, delays in the introduction of these new products, or lower-than-anticipated demand for these products could have a material and adverse effect on the Company's business and consolidated results of operations.

MARKETING AND SALES

Autodesk's customer-related operations are divided into three geographic regions: the Americas, Europe, and Asia Pacific. Autodesk's products are marketed worldwide through a network of domestic and foreign offices. The Company sells its software products primarily through distributors and resellers (value-added resellers or "VARs") who distribute Autodesk's products to end users in more than 150 countries. VARs, including both independent owners and computer store franchisees, are supported by Autodesk and its subsidiaries through technical training, periodic publications, and Autodesk's Home Page on the Internet.

In addition, Autodesk works directly with dealer and distributor sales organizations, computer manufacturers, other software developers, and peripherals manufacturers through cooperative advertising, promotions, and trade-show presentations. Autodesk also holds annual "Expos" throughout the world. These dedicated trade shows, incorporated within major industry trade shows, highlight Autodesk's products, as well as a number of third-party products. Autodesk employs mass-marketing techniques such as direct mailings and advertising in business and trade journals. Autodesk has a worldwide user group organization dedicated to the exchange of information related to the use of Autodesk's products.

Domestically, Autodesk distributes its products primarily through its authorized dealer network. Other domestic sales are made principally to large corporations, governmental agencies, educational institutions, and, for certain low-end design products, to end users. The majority of all of Autodesk's international sales are made to dealers and distributors, which are supported by Autodesk's foreign subsidiaries and international sales organizations. Certain international sales result from direct exports from the United States. Fluctuations in foreign exchange rates, specifically the stronger value of the dollar, relative to certain international currencies, negatively impacted foreign revenues during fiscal year 1999. These foreign currency fluctuations, as well as any slowdowns in any of Autodesk's geographical markets, including the recent economic instability experienced in certain Asia Pacific countries, could have a material adverse effect on Autodesk's business and future consolidated results of operations.

Autodesk's ability to effectively distribute its products depends in part upon the financial and business condition of its VAR network. Although Autodesk has not currently experienced any material problems with its VAR network, computer software dealers and distributors are typically not highly capitalized, have tended to experience difficulties during times of economic contraction and during periods of technology-market price pressure, and may do so in the future. Computer 2000/Datech and Mensch und Maschine accounted for 11 percent ($84.2 million) and 11 percent ($81.2 million) of total consolidated revenues for fiscal year 1999. Revenues from Computer 2000/Datech and Mensch und Maschine are included in the Design Solutions segment. While no single customer accounted for more than 10 percent of Autodesk's consolidated revenues in fiscal years 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. Autodesk's largest international distributor is Computer 2000/Datech AG in Germany. Autodesk's largest resellers in the United States are Avatech, DLT Solutions, Inc. and Ingram Micro.

Autodesk intends to continue to make its products available in foreign languages and expects that foreign sales will continue to contribute a significant portion of its consolidated revenues. International revenues, including exports from the United States, accounted for approximately 60 percent, 59 percent, and 67 percent of consolidated revenues in fiscal years 1999, 1998, and 1997, respectively.

CUSTOMER AND DEALER SUPPORT

During fiscal year 1998, Autodesk realigned its customer and dealer support network around its market groups to better provide services related to specific industry segments. Autodesk requires each authorized dealer and distributor to provide a professional level of technical support to customers by employing full-time, trained, technical-support personnel. Autodesk supports its dealers and distributors through technical product training, sales training classes, and direct telephone support. During fiscal year 1998, Autodesk began to offer more end-user support in addition to services which had historically been offered such as the online support available through the Autodesk Home Page on the Internet. These new support services include the Web-Based Learning program, a fee-based distance learning program that provides lessons and tutorials that highlight critical components of its products, and various Learning Assistance programs, which provide lessons related to design projects through an interactive multimedia tool.

Autodesk offers phone support through authorized Autodesk dealers under two programs: the Autodesk Premier Support Program ("APSP") and the Autodesk Systems Center Program ("ASCP"). Under the APSP, participating dealers act as dedicated account managers to Autodesk customers that have technical questions related to a specific vertical industry. The ASCP requires dealers to provide superior industry-specific application training to end users of the Company's products. In addition, Autodesk provides direct phone support to end users under the Safety Net Program ("SNP"). Under the SNP, Autodesk support staff provide technical support for customers with questions about AutoCAD and products offered by Autodesk's market groups.

As of January 31, 1999, Autodesk had authorized more than 900 independent Autodesk Training Centers (ATC(R)) throughout the world. These accredited training centers offer in-depth education and training in computer-aided design skills on AutoCAD and other Autodesk products, as well as on related, independently developed software.

Customers have formed Autodesk user groups as forums for education and to suggest product enhancements and development of new products. The Autodesk User Group International (AUGI(R)), officially recognized by Autodesk, sponsors an annual meeting held concurrently with the Autodesk University(R) user show; publishes a quarterly newsletter; independently evaluates Autodesk products; compiles user feature and functionality requirements; and offers telecourses taught by its membership on CompuServe. In addition, there are local user groups in Europe, Asia Pacific, and the Americas focused on expanding the use of Autodesk products.

DEVELOPER PROGRAMS

One of Autodesk's key strategies is to maintain an open-architecture design of its software products to facilitate third-party development of peripheral and complementary products. This approach enables customers and third parties to customize Autodesk's products for a wide variety of highly specific uses. Autodesk offers several programs that provide marketing, sales, and technical support and programming tools to Autodesk Registered Developers worldwide, who develop commercially available add-on applications for Autodesk products. Although Autodesk derives no direct revenue from these application developers, Autodesk believes that the availability and use of their add-on products enhance sales opportunities for Autodesk's core products.

Under the Autodesk Developer Channel, Autodesk offers three programs to third-party developers that are interested in licensing Autodesk software and technology. The Unique Application Reseller program ("UAR") allows software developer partners the ability to sell and support Autodesk software when bundled with specifically defined vertical applications. The OEM program provides the technology for qualified developers to create and deliver suites of scaleable products that focus on solving customer needs in specialized markets. The Solution Integrator ("SI") allows solution provider partners the ability to sell and support Autodesk software when bundled with specifically defined vertical solutions.

To support the growth of third-party developers, whose applications extend and enhance the functionality of Autodesk's products worldwide, Autodesk established the Developer Network Program ("ADN"). The ADN is a business network comprised of independent application developers and customers. This program provides sales, marketing, technical, and product support to Autodesk Strategic Developers.

BACKLOG

Autodesk typically ships products within one to two weeks after receipt of an order, which is common in the computer software industry. Accordingly, Autodesk does not maintain significant backlog, and backlog as of any particular date gives no indication of actual sales for any succeeding period.

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 Architecture, Engineering, and Construction family of products competes directly with software 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.; EaglePoint Software; International Microcomputer Software, Inc. ("IMSI"); Intergraph Corporation; Nemetschek Systems, Inc.; and Visio Corporation ("Visio"). Autodesk's MCAD products compete with products offered by Bentley; Visionary Design Systems; Hewlett-Packard Corporation; Parametric Technology Corporation; Structural Dynamics Research Corporation; Unigraphics; Computervision; Dassault Systemes ("Dassault"); SolidWorks Corporation (a subsidiary of Dassault); Baystate Technologies, Inc.; and think3. Autodesk's GIS Market Group faces competition from Bentley; Intergraph Corporation; MapInfo Corporation; Environmental Systems Research Institute ("ESRI"); and Smallworldwide plc. Kinetix product offerings compete with products offered by other multimedia companies such as Adobe Systems Inc.; Macromedia, Inc.; Silicon Graphics, Inc.; and Avid Technology, Inc. The Personal Solutions Group family of products competes with IMSI; The Learning Company; Visio; Micrografx Inc.; and others. Certain of the competitors of Autodesk have greater financial, technical, sales and marketing, and other resources than Autodesk.

The future financial performance of Autodesk's 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.

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 will depend, 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 results of operations.

INTELLECTUAL PROPERTY AND LICENSES

Autodesk protects its intellectual property through copyright, trade secret, patent, and trademark laws. For substantially all AutoCAD sales outside of North America, Autodesk uses software protection locks to inhibit unauthorized copying. Nonetheless, Autodesk's intellectual property rights may not be successfully asserted in the future or may be invalidated, circumvented, or challenged. In addition, the laws of certain foreign countries where Autodesk's products are distributed do not protect Autodesk's intellectual property rights to the same extent as U.S. laws. The inability of Autodesk to protect its proprietary information could have a material adverse effect on Autodesk's business and consolidated results of operations.

From time to time, Autodesk receives claims alleging infringement of a third party's intellectual property rights, including patents. Any disputes involving Autodesk's intellectual property rights or those of another party could lead to costly litigation which could have a material adverse effect on Autodesk's business and consolidated results of operations.

Autodesk retains ownership of software it develops. All software is licensed to users and provided in object code pursuant to either shrink-wrap, embedded or on-line licenses, or executed license agreements. These agreements contain restrictions on duplication, disclosure, and transfer.

Autodesk believes that because of the limitations of laws protecting its intellectual property and the rapid, ongoing technological changes in both the computer hardware and software industries, it must rely principally upon software engineering and marketing skills to maintain and enhance its competitive market position.

Autodesk has an in-house antipiracy program focused on pursuing companies and individuals who illegally duplicate, sell, or install Autodesk's software products. Software piracy is in some cases a felony under U.S. federal law, which allows copyright and patent holders to protect and enforce their rights as owners of intellectual property. Additionally, Autodesk is a member and co-founder of the Business Software Alliance ("BSA"), an organization comprised of member software companies whose purpose is to advance favorable public policy for the technology industry and promote the importance of honoring software copyrights.

Until fiscal 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.

PRODUCTION AND SUPPLIERS

Production of Autodesk's software products involves duplication of the software media and the printing of user manuals. The purchase of media and the transfer of the software programs onto media for distribution to customers are performed by Autodesk and by licensed subcontractors. Media for Autodesk's products include CD-ROMs and disks which are available from multiple sources. User manuals for Autodesk's products and packaging materials are produced to Autodesk specifications by outside sources. Domestic production is performed in leased facilities operated by Autodesk. Certain product assembly is also performed by independent third-party contractors. International production is performed by independent third-party contractors in Ireland and Singapore. To date, Autodesk has not experienced any material difficulties or delays in the production of its software and documentation.

Autodesk's Discreet business unit has historically relied on third-party vendors to manufacture and supply all of the hardware components used in its systems. Manufacturing at the Discreet unit consists of assembly (including disk array assembly), testing, and value added systems integration.

The Discreet unit's flame*, effect*, inferno*, fire*, smoke* and frost* software currently run on workstations manufactured by SGI. There are significant risks associated with this reliance on SGI and the Discreet unit may be impacted by the timing of the development and release of products by SGI, as was the case during fiscal year 1996. In addition, there may be unforeseen difficulties associated with adapting the Discreet unit's products to future SGI products. Moreover, although Autodesk has no reason to believe that the Discreet unit will be unable to obtain sufficient quantities of SGI workstations on a timely basis, the Discreet unit may not continue to be able to procure such workstations in sufficient quantities on a timely basis.

The Discreet unit is also dependent on SGI as the unit's sole source for video I/O cards used in the unit's systems. The Discreet unit generally purchases sole source or other components pursuant to purchase orders placed from time to time in the ordinary course of business and has no written agreements or guaranteed supply arrangements with its sole source suppliers.

EMPLOYEES

As of January 31, 1999, Autodesk had 2,712 full-time employees, of which 2,071 were based in the Americas, 439 in Europe, and 202 in Asia Pacific. The continued growth and success of Autodesk 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 and to retain existing personnel. The loss of one or more key employees or Autodesk's inability to maintain existing employees or 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.

ITEM 2. PROPERTIES

Autodesk's executive offices and those related to product development, domestic marketing and sales, and production are located in leased office space in northern California. The Company also leases office space in various locations throughout the United States for local sales, development, and technical support personnel. Autodesk's foreign subsidiaries lease office space for their operations.

Autodesk believes that its existing facilities and offices are adequate to meet its requirements for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

On August 28, 1998, a complaint was filed against Discreet and certain of its directors in the Marin County, California, Superior Court relating to Autodesk's acquisition of the Company. The complaint alleges that the defendants breached their fiduciary duties to shareholders in connection with the acquisition. The complaint seeks unspecified damages from the defendants. Autodesk believes the claims asserted in the complaint are without merit and intends to vigorously contest them.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of fiscal year 1999.

Executive Officers of the Registrant

The following sets forth certain information regarding the executive officers of the Company as of April 22, 1999:

NAME	AGE	POSITION
Carol A. Bartz.............	50	Chairman of the Board and Chief Executive Officer
Eric B. Herr...............	51	President and Chief Operating Officer
Joseph H. Astroth, Ph.D.....	43	Vice President, GIS Market Group
Carl Bass..................	41	Vice President, AECAD and Chief Technical Officer
Steve Cakebread............	47	Vice President and Chief Financial Officer
Linda Clarke...............	43	Vice President, Corporate Marketing
Dominic J. Gallello.........	44	Vice President, Mechanical CAD Market Group
Stephen McMahon............	57	Vice President, Human Resources and Facilities
Marcia K. Sterling..........	55	Vice President, Business Development, General Counsel, and Secretary
Godfrey R. Sullivan.........	45	Vice President, Personal Solutions Group
Michael E. Sutton...........	54	Vice President, Worldwide Field Organization

CAROL A. BARTZ joined the Company in April 1992 and has served as Chief Executive Officer and Chairman of the Board since May 1992. Ms. Bartz served as President from May 1992 through September 1996. Ms. Bartz is a director of AirTouch Communications, Inc., Network Appliance, Inc., BEA Systems, Inc., Cadence Design Systems, Inc., and Cisco Systems, Inc.

ERIC B. HERR has been Autodesk's President and Chief Operating Officer since September 1996, having also served as the Acting Vice President, AEC Market Group, from September 1996 through March 1997. Mr. Herr served as the Chief Financial Officer from the time he joined the Company in May 1992 until September 1996. From December 1992 through January 1995, Mr. Herr served as Vice President, Emerging Businesses. From January 1995 to May 1995, Mr. Herr served as Vice President, Finance and Administration.

DR. JOSEPH H. ASTROTH has served as Vice President, GIS Market Group, since joining the Company in January 1996. From September 1989 through December 1995, Dr. Astroth held various positions with Graphic Data Systems Corporation including Director, Environmental Market Group, from January 1993 to June 1994, and Vice President of Product Management, Engineering, from June 1994 to December 1995.

CARL BASS was named Vice President of Engineering in October 1997. He was named Chief Technical Officer in December 1996. From November 1995 to December 1996, Mr. Bass served as a Senior Technical Fellow for the AutoCAD family of products. Mr. Bass served as Chief Architect for AutoCAD from September 1993 to October 1995. Before joining Autodesk, Mr. Bass was cofounder and Chief Technical Officer of Ithaca Software from May 1986 to August 1993.

STEVE CAKEBREAD joined the Company in April 1997 as Vice President and Chief Financial Officer. From April 1993 through March 1997 he served as Vice President, Finance World Trade Corporation at Silicon Graphics. Mr. Cakebread held various finance and general management positions at Hewlett-Packard from January 1972 through March 1993.

LINDA CLARKE joined the Company in February 1999 as Vice President of Corporate Marketing. From December 1996 through December 1998, she served as Vice President of Global Marketing for Baan Company. From January 1990 through December 1996, Ms. Clarke was the Vice President of Marketing, Application Products Division of Adobe Systems.

DOMINIC J. GALLELLO has served as Vice President, MCAD Market Group since January 1995. Mr. Gallello served as Vice President, Asia Pacific, from the time he joined Autodesk in October 1992 until July 1996. From February 1995 to August 1995, Mr. Gallello served as Acting Vice President, MCAD Market Group.

STEPHEN MCMAHON has served as Vice President, Human Resources, since joining Autodesk in July 1992. From July 1987 to July 1992, Mr. McMahon served as Senior Director, Human Resources, for Apple Computer, Inc.

MARCIA K. STERLING joined Autodesk in October 1995 as Vice President, Business Development, General Counsel, and Secretary. From September 1982 to October 1995, she practiced corporate and securities law at Wilson Sonsini Goodrich & Rosati, where she was a member.

GODFREY R. SULLIVAN was named Vice President, Personal Solutions Group, in September 1997. Mr. Sullivan served as Vice President, the Americas, since joining Autodesk in October 1992 and as Acting Vice President, AEC/FM Market Group, from February 1995 to September 1995.

MICHAEL E. SUTTON was named Vice President, Worldwide Field Organization in September 1998. From June 1993 through September 1998, Mr. Sutton served as Vice President, Europe/Middle East/Africa.

There is no family relationship among any of the directors or executive officers of Autodesk.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference to the Company's 1999 Annual Report to Stockholders.

ITEM 6. SELECTED FINANCIAL DATA

The information required by this Item is incorporated by reference to page 1 of the Company's 1999 Annual Report to Stockholders.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this Item is incorporated by reference to pages 2 through 21 of the Company's 1999 Annual Report to Stockholders.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The information required by this Item is incorporated by reference to page 18 of the Company's 1999 Annual Report to Stockholders.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item is incorporated by reference to pages 22 through 42 of the Company's 1999 Annual Report to Stockholders.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

Certain information required by Part III is omitted from this Report in that the Registrant will file a definitive proxy statement pursuant to Regulation 14A (the "Proxy Statement") not later than 120 days after the end of the fiscal year covered by this Report and certain information included therein is incorporated herein by reference. Only those sections of the Proxy Statement that specifically address the items set forth herein are incorporated by reference. Such incorporation does not include the Compensation Committee Report or the Performance Graph included in the Proxy Statement.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information concerning the Company's directors required by this Item is incorporated by reference to the Company's Proxy Statement.

The information concerning the Company's executive officers required by this Item is incorporated by reference herein to the section of this Report in Part I, Item 4, entitled "Executive Officers of the Registrant."

The information regarding compliance with Section 16 of the Securities and Exchange Act of 1934 is to be set forth in the Proxy Statement and is hereby incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the Company's Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to the Company's Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference to the Company's Proxy Statement.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as a part of this Report:

1. <u>Financial Statements</u>: The following Consolidated Financial Statements of Autodesk, Inc., and Report of Ernst & Young LLP, Independent Auditors, are incorporated by reference to pages 22 through 42 of the Registrant's 1999 Annual Report to Stockholders:

    Consolidated Statement of Income-Fiscal Years Ended January 31, 1999, 1998, and 1997

    Consolidated Balance Sheet-January 31, 1999 and 1998

    Consolidated Statement of Cash Flows-Fiscal Years Ended January 31, 1999, 1998, and 1997

    Consolidated Statement of Stockholders' Equity-Three-Year Period Ended January 31, 1999

    Notes to Consolidated Financial Statements

Report of Ernst & Young LLP, Independent Auditors

2. Financial Statement Schedule: The following financial statement schedule of Autodesk, Inc., for the fiscal years ended January 31, 1999, 1998, and 1997, is filed as part of this Report and should be read in conjunction with the Consolidated Financial Statements of Autodesk, Inc.

Schedules not listed above have been omitted because they are not applicable or are not required or the information required to be set forth therein is included in the Consolidated Financial Statements or Notes thereto.

3. Exhibits: The Exhibits listed on the accompanying Index to Exhibits immediately following the financial statement schedules are filed as part of, or incorporated by reference into, this Report.

Exhibit No.	Description
2.1 (1)	Second Amended and Restated Agreement and Plan of Acquisition and Amalgamation by and among Autodesk, Inc., Autodesk Development B.V., 9066-9771 Quebec Inc., Autodesk Canada Inc., 9066-9854 Quebec Inc. and Discreet Logic Inc., dated as of November 18, 1998, as amended on December 18, 1998 and January 18, 1999
2.2 (1)	Second Amended and Restated Amalgamation Agreement by and among Discreet Logic Inc., 9066-9854 Quebec Inc. and Autodesk, Inc. dated as of January 18, 1999
2.3 (2)	Agreement and Plan of Reorganization By and Among Autodesk, Inc., Autodesk Acquisition Corporation, and Softdesk, Inc., dated December 10, 1996, as amended December 19, 1996
3.1	Certificate of Incorporation of Registrant
3.2 (3)	Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock of Autodesk, Inc.
3.3	Certificate of the Powers, Designations, Preferences and Rights of Series B Preferred Stock of Autodesk, Inc.
3.4 (4)	Bylaws of Registrant, as amended
4.1 (5)	Preferred Shares Right Agreement dated December 14, 1995
4.2 (5)	Amendment No. 1 to Preferred Shares Rights Agreement
9.1	Voting and Exchange Trust Agreement dated March 16, 1999 among Autodesk, Inc., Discreet Logic Inc., Autodesk Development B.V., and Montreal Trust Company of Canada
10.1 (6)*	Registrant's 1987 Stock Option Plan, as amended
10.2 (6)*	Registrant's Employee Qualified Stock Purchase Plan and form of Subscription Agreement, as amended
10.3 (4)*	Registrant's 1990 Directors' Option Plan, as amended
10.4 (4)*	Registrant's 1996 Stock Plan, as amended
10.5 (7)*	Form of Indemnification Agreement executed by the Company and each of its officers and directors
10.6(8)*	Agreement between Registrant and Carol A. Bartz dated April 7, 1992
10.7(9)*	Teleos Research 1996 Stock Plan
10.8(10)*	Softdesk, Inc. 1992 Stock Option Plan
10.9(10)*	Softdesk, Inc. 1993 Director Stock Option Plan

10.10(10)*	Softdesk, Inc. 1993 Equity Incentive Plan
10.11(4)*	Registrant's 1998 Employee Qualified Stock Purchase Plan
10.12	Support Agreement dated March 16, 1999 among Autodesk, Inc., Autodesk Development B.V. and Discreet Logic Inc.
10.13(11)*	Discreet Logic Inc. Amended and Restated 1994 Restricted Stock and Stock Option Plan
10.14(11)*	Discreet Logic Inc. 1995 Employee Stock Purchase Plan
10.15(11)*	Discreet Logic Inc. 1995 Non-Employee Director Stock Option Plan
10.16(11)*	Discreet Logic Inc. 1997 Special Limited Non-Employee Director Stock Plan
13.1	Pages 1 through 42 of the Registrant's Annual Report to Stockholders for the year ended January 31, 1999 (to be deemed filed only to the extent required by the instructions to exhibits for reports on Form 10-K)
21.1	List of Subsidiaries
23.1	Consent of Independent Auditors (included on page 20 of this Report)
24.1	Power of Attorney (included on page 19 of this Report)
27.1	Financial Data Schedule

(1) Incorporated by reference to the exhibit filed with the Registrant's Report on Form 8-K filed on March 16, 1999.

(2) Incorporated by reference to the exhibit filed with the Registration Statement on Form S-4 filed on March 3, 1997.

(3) Incorporated by reference to the exhibit filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 1997.

(4) Incorporated by reference to the exhibit filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 1998.

(5) Incorporated by reference to the Registrant's Report on Form 8-A filed on January 5, 1996, as amended on January 8, 1996 and January 15, 1998.

(6) Incorporated by reference to the exhibit filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 1996.

(7) Incorporated by reference to the exhibit filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 1995.

(8) Incorporated by reference to the exhibit filed with the Registrant's Report on Form 10-Q for the fiscal quarter ended April 30, 1992.

(9) Incorporated by reference to the exhibit filed with the Registrant's Report on Form S-8 filed on July 23, 1996.

(10) Incorporated by reference to the exhibit filed with the Registrant's Report on Form S-8 filed on April 3, 1997.

(11) Incorporated by reference to the exhibits filed with the Registrant's Report on Form S-8 filed on March 18, 1999.

* Denotes a management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K

On November 19, 1998 the Company filed a report on Form 8-K describing the Second Amended and Restated Agreement and Plan of Acquisition and Amalgamation entered into among Autodesk, Inc., Autodesk Development B.V., 9066-9771 Quebec Inc., Autodesk Canada Inc., 9066-9854 Quebec Inc., and Discreet Logic Inc.

On January 20, 1999 the Company filed a report on Form 8-K describing the Amendment No. 2 to the Second Amended and Restated Agreement and Plan of Acquisition and Amalgamation entered into among Autodesk, Inc., Autodesk Development B.V., 9066-9771 Quebec Inc., Autodesk Canada Inc., 9066-9854 Quebec Inc., and Discreet Logic Inc.

With the exception of the information incorporated by reference to the Annual Report to Stockholders in Items 5, 6, 7, and 8 of Part II and Item 14 of Part IV of this Form 10-K, the Company's 1999 Annual Report to Stockholders is not to be deemed filed as a part of this Report.

Autodesk, the Autodesk logo, AutoCAD, AutoCAD LT, AutoCAD Map, AutoSketch, Kinetix, Mechanical Desktop, 3D Studio MAX, AutoLISP, Softdesk, Autodesk University, CAD Overlay, Autodesk MapGuide, Autodesk World, 3D Studio VIZ, AUGI, ATC, and Character Studio are registered trademarks, and ObjectARX, AutoSnap, Actrix, Content Explorer, ActiveShapes, and AutoCAD Architectural Desktop are trademarks of Autodesk, Inc. in the USA and/or other countries. Genius is a trademark of Genius CAD Software GmbH and CoKG licensed to Autodesk, Inc., for limited use in connection with specified products. All other brand names, product names, or trademarks belong to their respective holders.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

AUTODESK, INC.

By: /s/ CAROL A. BARTZ

Carol A. Bartz
Chairman of the Board

Dated: April 28, 1999

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Carol A. Bartz as his or her attorney-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ CAROL A. BARTZ Carol A. Bartz	Chief Executive Officer and Director (Principal Executive Officer)	April 28, 1999
/s/ STEVE CAKEBREAD Steve Cakebread	Vice President and Chief Financial Officer (Principal Financial Officer)	April 28, 1999
/s/ DAVID S. OPPENHEIMER David S. Oppenheimer	Vice President, Finance (Principal Accounting Officer)	April 28, 1999
/s/ MARK A. BERTELSEN Mark A. Bertelsen	Director	April 28, 1999
/s/ CRAWFORD W. BEVERIDGE Crawford W. Beveridge	Director	April 28, 1999
/s/ J. HALLAM DAWSON J. Hallam Dawson	Director	April 28, 1999
/s/ PAUL OTELLINI Paul Otellini	Director	April 28, 1999
/s/ MORTON L. TOPFER Morton L. Topfer	Director	April 28, 1999
/s/ MARY ALICE TAYLOR Mary Alice Taylor	Director	April 28, 1999

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Autodesk, Inc. of our report dated February 22, 1999, except for Note 12 as to which the date is March 16, 1999, included in the 1999 Annual Report to Stockholders of Autodesk, Inc.

Our audits also included the financial statement schedule of Autodesk, Inc. listed in Item 14(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the Registration Statements (Form S-8 No. 33-15675, No. 33-22656, No. 33-39458, No. 33-41265, No. 33-51110, No. 33-54683, No. 33-61015, No. 333-08693, No. 333-15037, No. 333-24469, and No. 333-62655) pertaining to the 1987 Stock Option Plan, 1990 Directors' Option Plan, 1996 Stock Plan, Employee Qualified Stock Purchase Plan and the 1998 Employee Qualified Stock Purchase Plan of Autodesk, Inc., the Teleos Research 1996 Stock Plan and the Softdesk, Inc. 1992 Stock Option Plan, Softdesk, Inc. 1993 Director Stock Option Plan and Softdesk, Inc. 1993 Equity Incentive Plan of our report dated February 22, 1999, except for Note 12 as to which the date is March 16, 1999, with respect to the consolidated financial statements incorporated herein by reference, and our report included in the preceding paragraph with respect to the financial statement schedule in this Annual Report (Form 10-K) of Autodesk, Inc.

/s/ ERNST & YOUNG LLP

ERNST & YOUNG LLP

San Jose, California
April 28, 1999

Schedule II

AUTODESK, INC.

VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions Write-Offs	Balance at End of Year
Fiscal year ended January 31, 1999				
Allowance for doubtful accounts	$ 7,136,000	$ 1,737,000	$ 2,068,000	$ 6,805,000
Allowance for stock balancing and product rotation	$20,219,000	$25,484,000	$30,926,000	$14,777,000
Fiscal year ended January 31, 1998				
Allowance for doubtful accounts	$ 6,635,000	$ 3,701,000	$ 3,200,000	$ 7,136,000
Allowance for stock balancing and product rotation	$17,175,000	$38,419,000	$35,375,000	$20,219,000
Fiscal year ended January 31, 1997				
Allowance for doubtful accounts	$ 6,731,000	$ 1,735,000	$ 1,831,000	$ 6,635,000
Allowance for stock balancing and product rotation	$14,607,000	$46,884,000	$44,316,000	$17,175,000

EXHIBIT 3.1

CERTIFICATE OF INCORPORATION

OF

AUTODESK, INC.

FIRST: The name of the Corporation is Autodesk, Inc. (the "Corporation").

SECOND: The address of the Corporation's registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle, zip code 19801. The name of its registered agent at such address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

FOURTH: The Corporation is authorized to issue two classes of stock to be designated respectively Common Stock and Preferred Stock. The total number of shares of all classes of stock which the Corporation has authority to issue is Fifty-Two Million (52,000,000), consisting of Fifty Million (50,000,000) shares of Common Stock, $0.01 par value (the "Common Stock"), and Two Million (2,000,000) shares of Preferred Stock, $0.01 par value (the "Preferred Stock").

The Preferred Stock may be issued from time to time in one or more series. The Board of Directors is hereby authorized subject to limitations prescribed by law, to fix by resolution or resolutions the designations, powers, preferences and rights, and the qualifications, limitations or restrictions thereof, of each such series of Preferred Stock, including without limitation authority to fix by resolution or resolutions, the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), redemption price or prices, and liquidation preferences of any wholly unissued series of Preferred Stock, and the number of shares constituting any such series and the designation thereof, or any of the foregoing.

The Board of Directors is further authorized to increase (but not above the total number of authorized shares of the class) or decrease (but not below the number of shares of any such series then outstanding) the number of shares of any series, the number of which was fixed by it, subsequent to the issue of shares of such series then outstanding, subject to the powers, preferences and rights, and the qualifications, limitations and restrictions thereof stated in the resolution of the Board of Directors originally fixing the number of shares of such series. If the number of shares of any series is so decreased, then the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

FIFTH: The name and mailing address of the incorporator are as follows:

Martin W. Korman
Wilson Sonsini Goodrich & Rosati
Two Palo Alto Square
Palo Alto, CA 94306

SIXTH: The Corporation is to have perpetual existence.

SEVENTH: The election of directors need not be by written ballot unless a stockholder demands election by written ballot at a meeting of stockholders and before voting begins or unless the Bylaws of the Corporation shall so provide.

EIGHTH: The number of directors which constitute the whole Board of Directors of the Corporation shall be designated in the Bylaws of the Corporation.

NINTH: In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, the Board of Directors is expressly authorized to adopt, alter, amend or repeal the Bylaws of the Corporation.

TENTH: To the fullest extent permitted by the Delaware General Corporation Law as the same exists or may hereafter be amended, no director of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director.

Neither any amendment nor repeal of this Article, nor the adoption of any provision of this Certificate of Incorporation inconsistent with this Article, shall eliminate or reduce the effect of this Article in respect of any matter occurring, or any cause of action, suit or claim that, but for this Article, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

ELEVENTH: At the election of directors of the Corporation, each holder of stock of any class or series shall be entitled to one vote for each share held. No stockholder will be permitted to cumulate votes at any election of directors.

TWELFTH: Meetings of stockholders may be held within or without the State of Delaware, as the Bylaws may provide. The books of the Corporation may be kept (subject to any provision contained in the laws of the State of Delaware) outside of the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws of the Corporation.

THIRTEENTH: The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by the laws of the State of Delaware, and all rights conferred herein are granted subject to this reservation.

The undersigned incorporator hereby acknowledges that the foregoing Certificate of Incorporation is his act and deed and that the facts stated herein are true.

Dated: May 5, 1994

/s/ Martin W. Korman

Martin W. Korman
Incorporator

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
AUTODESK, INC.

Autodesk, Inc., a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), pursuant to the provisions of the General Corporation Law of the State of Delaware (the "GCL"), does hereby certify as follows:

FIRST: The Certificate of Incorporation of the Corporation is hereby amended by deleting the second sentence of the first paragraph of ARTICLE FOURTH of the Certificate of Incorporation in its present form and substituting therefor a new second sentence of the first paragraph of ARTICLE FOURTH in the following form:

> The total number of shares of all classes of stock which the Corporation has authority to issue is One Hundred Two Million (102,000,000), consisting of One Hundred Million (100,000,000) shares of Common Stock, $0.01 par value (the "Common Stock"), and Two Million (2,000,000) shares of Preferred Stock, $0.01 par value (the "Preferred Stock").

SECOND: The amendment to the Amended and Restated Certificate of Incorporation of the Corporation set forth in this Certificate of Amendment has been duly adopted in accordance with the provisions of Section 242 of the GCL (a) the Board of Directors of the Corporation having duly adopted a resolution setting forth such amendment and declaring its advisability and submitting it to the stockholders of the Corporation for their approval, and (b) the stockholders of the Corporation having duly adopted such amendment by vote of the holders of a majority of the outstanding stock entitled to vote thereon at a special meeting of the stockholders called and held upon notice in accordance with Section 222 of the GCL.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be signed by Carol A. Bartz, its Chairman of the Board, President and Chief Executive Officer, this 13th day of October, 1994.

AUTODESK, INC.

By: /s/ Carol A. Bartz

Carol A. Bartz
Chairman of the Board, President
And Chief Executive Officer

AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
AUTODESK, INC.

(Pursuant to Sections 242 and 245 of the General Corporation Law of the State of Delaware)

Carol A. Bartz and Marcia K. Sterling each hereby certifies:

(1) They are the Chief Executive Officer and Secretary, respectively, of Autodesk, Inc., a corporation organized and existing under the General Corporation Law of the State of Delaware (the "General Corporation Law");

(2) The original Certificate of Incorporation of this corporation, originally filed on May 10, 1994, is hereby amended and restated in its entirety to read as follows:

FIRST: The name of this corporation is Autodesk, Inc. (the "Corporation").

SECOND: The address of the Corporation's registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle, zip code 19801. The name of its registered agent at such address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

FOURTH: The Corporation is authorized to issue two classes of stock to be designated respectively Common Stock and Preferred Stock. The total number of shares of all classes of stock which the Corporation has authority to issue is Two Hundred Fifty-Two Million (252,000,000), consisting of Two Hundred Fifty Million (250,000,000) shares of Common Stock, $0.01 par value (the "Common Stock"), and Two Million (2,000,000) shares of Preferred Stock, $0.01 par value (the "Preferred Stock").

The Preferred Stock may be issued from time to time in one or more series. The Board of Directors is hereby authorized subject to limitations prescribed by law, to fix by resolution or resolutions the designations, powers, preferences and rights, and the qualifications, limitations or restrictions thereof, of each such series of Preferred Stock, including without limitation authority to fix by resolution or resolutions, the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), redemption price or prices, and liquidation preferences of any wholly unissued series of Preferred Stock, and the number of shares constituting any such series and the designation thereof, or any of the foregoing.

The Board of Directors is further authorized to increase (but not above the total number of authorized shares of the class) or decrease (but not below the number of shares of any such series then outstanding) the number of shares of any series, the number of which was fixed by it, subsequent to the issue of shares of such series then outstanding, subject to the powers, preferences and rights, and the qualifications, limitations and restrictions thereof stated in the resolution of the Board of Directors originally fixing the number of shares of such series. If the number of shares of any series is so decreased, then the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

FIFTH: The Corporation is to have perpetual existence.

SIXTH: The election of directors need not be by written ballot unless a stockholder demands election by written ballot at a meeting of stockholders and before voting begins or unless the Bylaws of the Corporation shall so provide.

SEVENTH: The number of directors which constitute the whole Board of Directors of the Corporation shall be designated in the Bylaws of the Corporation.

EIGHTH: In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, the Board of Directors is expressly authorized to adopt, alter, amend or repeal the Bylaws of the Corporation.

NINTH: To the fullest extent permitted by the Delaware General Corporation Law as the same exists or may hereafter be amended, no director of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director.

Neither any amendment nor repeal of this Article, nor the adoption of any provision of this Amended and Restated Certificate of Incorporation inconsistent with this Article, shall eliminate or reduce the effect of this Article in respect of any matter occurring, or any cause of action, suit or claim that, but for this Article, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

TENTH: At the election of directors of the Corporation, each holder of stock of any class or series shall be entitled to one vote for each share held. No stockholder will be permitted to cumulate votes at any election of directors.

ELEVENTH: Meetings of stockholders may be held within or without the State of Delaware, as the Bylaws may provide. The books of the Corporation may be kept (subject to any provision contained in the laws of the State of Delaware) outside of the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws of the Corporation.

TWELFTH: The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Amended and Restated Certificate of Incorporation, in the manner now or hereafter prescribed by the laws of the State of Delaware, and all rights conferred herein are granted subject to this reservation.

(3) This Amended and Restated Certificate of Incorporation has been duly adopted by the Board of Directors of this Corporation in accordance with Sections 242 and 245 of the General Corporation Law.

(4) This Amended and Restated Certificate of Incorporation has been duly approved, in accordance with Section 242 of the General Corporation Law, by vote of the holders of a majority of the outstanding stock entitled to vote thereon.

IN WITNESS WHEREOF, the undersigned have executed this Amended and Restated Certificate of Incorporation on this 16th day of April, 1998.

/s/ Carol A. Bartz

Carol A. Bartz
Chief Executive Officer

/s/ Marcia K. Sterling

Marcia K. Sterling
Secretary

CORRECTED CERTIFICATE
OF THE
AMENDED AND RESTATED CERTIFICATE OF INCORPORATION
OF
AUTODESK, INC.

A Delaware corporation

I, Marcia K. Sterling, hereby certify:

1. That I am the duly elected Secretary of Autodesk, Inc. ("Autodesk"), a corporation organized and existing under the General Corporation Law of the State of Delaware (the "General Corporation Law"), the original Certificate of Incorporation of which was filed with the Secretary of State of Delaware on May 10, 1994 (the "Certificate of Incorporation");

2. That the instrument being corrected is entitled "Amended and Restated Certificate of Incorporation of Autodesk, Inc." (the "Prior Instrument") and was filed with the Secretary of State of Delaware on April 16, 1998, and that the Prior Instrument as so filed is an inaccurate record of the corporate action therein referred to inasmuch as it failed to contemplate and preserve a previously filed Certificate of Designation, and therefore requires correction as permitted by Section 103(f) of the General Corporation Law;

3. That the document in its corrected form shall be entitled "Certificate of Amendment of Certificate of Incorporation of Autodesk, Inc." and shall be in the form attached hereto as Exhibit A (the "Corrected Instrument"), and the Prior Instrument is hereby superseded in its entirety by the Corrected Instrument, effective as of April 16, 1998, the original filing date of the Prior Instrument.

IN WITNESS WHEREOF, Autodesk has caused this Corrected Certificate to be signed and acknowledged by Marcia K. Sterling, its Secretary, this 7th day of April, 1999.

/s/ Marcia K. Sterling

Marcia K. Sterling, Secretary

I hereby acknowledge on behalf of Autodesk that this instrument is the act and deed of Autodesk and that the facts stated herein are true.

/s/ Marcia K. Sterling

Marcia K. Sterling, Secretary

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
AUTODESK, INC.

I, Marcia K. Sterling, hereby certify:

1. That I am the duly elected Secretary of Autodesk, Inc. ("Autodesk"), a corporation organized and existing under the General Corporation Law of the State of Delaware (the "General Corporation Law"), the original Certificate of Incorporation of which was filed with the Secretary of State of Delaware on May 10, 1994;

2. The Certificate of Incorporation of Autodesk is hereby amended by deleting the first paragraph of Article FOURTH of the Certificate of Incorporation in its present form and substituting therefor a new first paragraph of Article FOURTH in the following form:

"The Corporation is authorized to issue two classes of stock to be designated respectively Common Stock and Preferred Stock. The total number of shares of all classes of stock which the Corporation has authority to issue is Two Hundred Fifty-Two Million (252,000,000) shares of Common Stock, $0.01 par value (the "Common Stock"), and Two Million (2,000,000) shares of Preferred Stock, $0.01 par value (the "Preferred Stock")."

3. This Certificate of Amendment of Certificate of Incorporation has been duly adopted by the Board of Directors of this Corporation in accordance with Section 242 of the General Corporation Law of the State of Delaware.

4. This Certificate of Amendment of Certificate of Incorporation has been duly approved, in accordance with Sections 242 and 228 of the General Corporation Law of the State of Delaware, by affirmative vote of the holders of a majority of the outstanding stock entitled to vote thereon.

IN WITNESS WHEREOF, Autodesk has caused this Certificate of Amendment of Certificate of Incorporation to be signed and acknowledged by Marcia K. Sterling, its Secretary, this 7th day of April, 1999.

/s/ Marcia K. Sterling

Marcia K. Sterling, Secretary

I hereby acknowledge on behalf of Autodesk that this instrument is the act and deed of Autodesk and that the facts stated herein are true.

/s/ Marcia K. Sterling

Marcia K. Sterling, Secretary

EXHIBIT 3.3

CERTIFICATE OF THE POWERS, DESIGNATIONS,
PREFERENCES AND RIGHTS OF

SERIES B PREFERRED STOCK

OF AUTODESK, INC.

Pursuant to Section 151(g) of the General Corporation Law
of the State of Delaware

We, Carol A. Bartz and Marcia K. Sterling, the President and the Secretary, respectively, of Autodesk, Inc., a Delaware corporation (the "Company"), in accordance with the provisions of Section 103 of the General Corporation Law of the State of Delaware (the "DGCL"), DO HEREBY CERTIFY that, pursuant to the provisions of Section 151(g) of the DGCL, the following resolutions were duly adopted by the Board of Directors of the Company and pursuant to authority conferred upon the Board of Directors by the provisions of the Amended and Restated Certificate of Incorporation of the Company (the "Certificate of Incorporation"), the Board of Directors of the Company, in an Action by Written Consent dated January 18, 1999, adopted resolutions providing for the issuance of a series of Preferred Stock of the Company and fixing the relative powers, designations, preferences, rights, qualifications, limitations and restrictions of such stock. These resolutions are as follows:

"RESOLVED, that pursuant to authority expressly granted to and vested in the Board of Directors of the Company by the provisions of the Certificate of Incorporation, the issuance of a series of Preferred Stock of the Company to be designated "Series B Preferred Stock," par value $0.01 per share, which shall consist of one of the 1,900,000 shares of Preferred Stock which the Company now has authority to issue, be, and the same hereby is, authorized, and the Board hereby fixes the powers, designations, preferences and relative, participating, optional and other rights, and the qualifications, limitations and restrictions thereof, of the sole share of such series (in addition to the powers, designations, preferences and relative, participating, optional or other rights, and the qualifications, limitations or restrictions thereof, set forth in the Certificate of Incorporation which may be applicable to the Preferred Stock of this series) as follows:

I. Authorized Number and Designation. One share of the Preferred Stock, $0.01 par value per share, of the Company is hereby constituted as a series of the Preferred Stock designated Series B Preferred Stock, $0.01 par value (the "Series B Preferred").

II. Dividends and Distributions. The holder of Series B Preferred shall not be entitled to receive any dividends declared and paid by the Company.

III. Voting Rights. Except as otherwise required by law or by the Certificate of Incorporation: (i) the holder of record of the sole share of Series B Preferred shall have a number of votes equal to the number of votes that the holders (the "Holders") of the outstanding Exchangeable Non-Voting Shares ("Exchangeable Shares") of Discreet Logic Inc., a Quebec company ("New Discreet"), from time to time, would be entitled to if all such Exchangeable Shares were exchanged by the Holders for shares of the Common Stock of the Company ("Common Stock") pursuant to the terms of the Exchangeable Shares, in each case for the election of directors and on all matters submitted to a vote of the stockholders of the Company ("Voting Rights"); (ii) the holder of record of the sole share of Series B Preferred shall not have the Voting Rights with respect to the Exchangeable Shares owned by the Company, the Company's subsidiaries or any person or entity directly or indirectly controlled by or under common control with the Company (unless such person or entity, if any, was a director, executive officer, or principal shareholder of Discreet Logic Inc., a Quebec company ("Old Discreet"), prior to the date of filing hereof); and (iii) in respect of all matters concerning the voting of shares, the Series B Preferred and the Common Stock shall vote as a single class.

IV. Liquidation Preference. Upon any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, and subject to any prior rights of holders of shares of Preferred Stock ranking senior to the Series B Preferred, the holder of the share of Series B Preferred shall be paid an amount equal to $1.00, together with payment to any class of stock ranking equally with the Series B Preferred, and before payment shall be made to the holders of any stock ranking on liquidation junior to the Series B Preferred (such amount payable with respect to the Series B Preferred being referred to as the "Series B Preferred Liquidation Preference Payment").

V. Ranking. The Series B Preferred shall rank junior to the Series A Preferred Stock of the Company in all respects.

VI. Other Provisions. (a) Pursuant to the terms of that certain Second Amended and Restated Agreement and Plan of Acquisition and Amalgamation dated as of November 18, 1998, as amended, by and among the Company, Autodesk Development B.V. ("Dutchco"), 9066-9771 Quebec Inc., Autodesk Canada Inc., 9066-9854 Quebec Inc. and Old Discreet, one share of Series B Preferred is being issued to the trustee (the "Trustee") under the Voting and Exchange Trust Agreement, dated as of March 16, 1999 by and among the Company, Dutchco, New Discreet and the Trustee.

(b) The holder of the sole share of Series B Preferred is entitled to exercise the voting rights attendant thereto in such manner as such holder desires.

(c) At such time as the Series B Preferred has no votes attached to it because there are no Exchangeable Shares outstanding which are not owned by the Company, any of its subsidiaries or any person directly or indirectly controlled by or under common control of the Company, excluding such shares of Series B Preferred owned by any person or entity, if any, that was a director, executive officer or principal stockholder of Old Discreet prior to the date of filing hereof, the Series B Preferred shall be cancelled.

RESOLVED FURTHER, that the Chief Executive Officer, President or any Vice President and the Secretary or any Assistant Secretary of the Company be, and they hereby are, authorized and directed to prepare and file (or cause to be prepared and filed) a Certificate of the Powers, Designations, Preferences and Rights in accordance with the foregoing resolution and the provisions of Delaware law and to take such actions as they may deem necessary or appropriate to carry out the intent of the foregoing resolutions."

IN WITNESS WHEREOF, we have executed and subscribed to this Certificate and do hereby affirm the foregoing as true under the penalties of perjury this 9th day of March, 1999.

Autodesk, Inc.

/s/ Carol A Bartz

Carol A. Bartz
Chairman and Chief Executive Officer

/s/ Marcia K. Sterling

Marcia K. Sterling
Vice President, Business Development,
General Counsel and Secretary

EXHIBIT 9.1

VOTING AND EXCHANGE TRUST AGREEMENT

AGREEMENT made as of the 16th day of March, 1999

BETWEEN:

AUTODESK, INC.,
a corporation subsisting under the laws
of the State of Delaware,

(hereinafter referred to as the "Parent")

--and--

DISCREET LOGIC INC.,
a company subsisting under the laws
of the Province of Quebec,

(hereinafter referred to as the "Corporation")

--and--

AUTODESK DEVELOPMENT B.V.,
a corporation subsisting under the laws
of The Netherlands,

(hereinafter referred to as "Dutchco")

--and--

MONTREAL TRUST COMPANY OF CANADA,
a trust company incorporated under the
laws of Canada,

(hereinafter referred to as the "Trustee").

WHEREAS pursuant to the Second Amended and Restated Agreement and Plan of Acquisition and Amalgamation dated as of November 18, 1998, as amended, by and among Parent, Dutchco, 9066-9771 Quebec Inc. ("Amalgamation Sub"), 9066-9854 Quebec Inc. ("Autodesk Quebec"), Autodesk Canada Inc. and Discreet Logic Inc. (the "Company") (such agreement being hereinafter referred to as the "Combination Agreement"), the parties agreed that immediately after the Effective Time (as such term is defined in the Combination Agreement), Parent, Dutchco, the Corporation and a Canadian trust company would execute and deliver a Voting and Exchange Trust Agreement containing the terms and conditions set forth in Exhibit D to the Combination Agreement together with such other terms and conditions as may be agreed to by the parties to the Combination Agreement acting reasonably;

AND WHEREAS to give effect to the amalgamation contemplated in the Combination Agreement and the Second Amended and Restated Amalgamation Agreement dated as of January 18, 1999 among the Company, Autodesk Quebec and Amalgamation Sub, articles of amalgamation (the "Articles of Amalgamation") were filed pursuant to the Companies Act (Quebec) whereby the Company, Autodesk Quebec and Amalgamation Sub were amalgamated to continue as the Corporation (the "Amalgamation");

AND WHEREAS pursuant to the Amalgamation (i) the shareholders of the Company ("Discreet Shareholders") received one Class B non-voting common share of the Corporation ("Class B Shares") for each common share of the Company held by each such shareholder immediately prior to the Amalgamation, (ii) Dutchco, a wholly-owned subsidiary of Parent, became the registered and beneficial owner of all of the issued and outstanding Class A Shares of the Corporation, and (iii) Autodesk Canada Inc., an indirect wholly-owned subsidiary of Parent, became the registered and beneficial owner of all of the issued and outstanding Class C Shares of the Corporation;

AND WHEREAS subsequent to the Amalgamation, the holders of Class B Shares had the right to elect to retract the Class B Shares received by them upon the Amalgamation in exchange for exchangeable non-voting shares of the Corporation (the "Exchangeable Shares") on the basis of 0.33 of one Exchangeable Share for each Class B Share so retracted;

AND WHEREAS, immediately following the retraction of the Class B Shares by the holders thereof, the remaining Class B Shares not so retracted were automatically converted into units each consisting of one Class E Share and one Class F Share;

AND WHEREAS the Articles of Amalgamation set forth the rights, privileges, restrictions and conditions (collectively the "Exchangeable Share Provisions") attaching to the Exchangeable Shares;

AND WHEREAS pursuant to the Combination Agreement and the terms and conditions of the Exchangeable Shares, the Parent is to provide voting rights in the Parent to each holder (other than the Parent, its subsidiaries and Affiliates) from time to time of Exchangeable Shares, such voting rights per Exchangeable Share to be equivalent to the voting rights per Parent Common Share;

AND WHEREAS pursuant to the Combination Agreement and the terms and conditions of the Exchangeable Shares, Dutchco is to grant to and in favour of the holders (other than the Parent, its subsidiaries and Affiliates) from time to time of Exchangeable Shares the right, in the circumstances set forth herein, to require Dutchco to purchase from each such holder all or any part of the Exchangeable Shares held by the holder;

AND WHEREAS the parties desire to make appropriate provision and to establish a procedure whereby voting rights in the Parent shall be exercisable by holders (other than the Parent, its subsidiaries and Affiliates) from time to time of Exchangeable Shares by and through the Trustee, which will hold legal title to one share of Series B Preferred Stock of the Parent to which voting rights attach for the benefit of such holders, and whereby the right to require Dutchco to purchase Exchangeable Shares from the holders thereof (other than the Parent, its subsidiaries and Affiliates) shall be exercisable by such holders from time to time of Exchangeable Shares by and through the Trustee, which will hold legal title to such right for the benefit of such holders;

AND WHEREAS pursuant to the provisions attaching to the Class E Shares and the Class F Shares of the Corporation, the Corporation has the right to redeem all of the issued and outstanding Class E Shares and Class F Shares;

AND WHEREAS pursuant to the provisions attaching to the Class E Shares and the Class F Shares of the Corporation, Dutchco has, upon notice by the Corporation of its intent to redeem the Class E Shares and the Class F Shares, the right to purchase all of the issued and outstanding Class E Shares and Class F Shares;

AND WHEREAS the parties desire to make appropriate provision whereby Dutchco covenants to exercise the Class E Redemption Call Right and the Class F Redemption Call Right and the Trustee shall be entitled to enforce such covenant on behalf of the Class E and Class F Shareholders;

AND WHEREAS these recitals and any statements of fact in this trust agreement are made by the Parent, Dutchco and the Corporation and not by the Trustee;

NOW THEREFORE in consideration of the respective covenants and agreements provided in this trust agreement and for other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties agree as follows:

ARTICLE 1

Definitions and Interpretation

1.1 Definitions. In this trust agreement, the following terms shall have the following meanings:

"Affiliate" of any person means any other person directly or indirectly controlled by, or under common control of, that person. For the purposes of this definition, "control" (including, with correlative meanings, the terms "controlled by" and "under common control of"), as applied to any person, means the possession by another person, directly or indirectly, of the power to direct or cause the direction of the management and policies of that first mentioned person, whether through the ownership of voting securities, by contract or otherwise; provided, however, that any former directors, executive officers or principal shareholders of Discreet Logic Inc. who may be deemed to be an affiliate of Parent, after the Effective Date, shall not be considered an "Affiliate" for purposes of this Agreement.

"Automatic Exchange Rights" means the benefit of the obligation of Dutchco to effect the automatic exchange of Parent Common Shares for Exchangeable Shares pursuant to section 5.12 hereof.

"Beneficiaries" means, for the purposes of matters relating to the Voting Share, the Exchangeable Shares Shareholders and, for the purposes of matters relating herein to the Covenants, the Class E and F Shareholders.

"Beneficiary Votes" has the meaning ascribed thereto in section 4.2 hereof.

"Board of Directors" means the Board of Directors of the Corporation.

"Business Day" means a day other than a Saturday, Sunday or a day when banks are not open for business in either or both of San Francisco, California or Montreal, Quebec.

"Canadian Dollar Equivalent" means in respect of an amount expressed in a foreign currency (the "Foreign Currency Amount") at any date the product obtained by multiplying (a) the Foreign Currency Amount by (b) the noon spot exchange rate on such date for such foreign currency expressed in Canadian dollars as reported by the Bank of Canada or, in the event such spot exchange rate is not available, such exchange rate on such date for such foreign currency expressed in Canadian dollars as may be deemed by the Board of Directors to be appropriate for such purpose.

"Class B Conversion Time" means the time at which each outstanding Class B Share shall automatically be converted into a unit consisting of one Class E Share and one Class F Share as contemplated in section 5.1 of the provisions attaching to the Class B Shares.

"Class E and F Shareholders" means the registered holders from time to time of the Class E Shares and the Class F Shares.

"Class E Shares" means the Class E voting common shares in the share capital of the Corporation.

"Class F Shares" means the Class F non-voting common shares in the share capital of the Corporation.

"Class E Redemption Right" means the right of the Corporation to redeem the Class E Shares as contemplated in section 4.1 of the provisions attaching to the Class E Shares.

"Class F Redemption Right" means the right of the Corporation to redeem the Class F Shares as contemplated in section 4.1 of the provisions attaching to the Class F Shares.

"Class E Redemption Call Right" means the overriding right of Dutchco contemplated in section 4.3 of the provisions attached to the Class E Shares pursuant to which Dutchco is entitled, upon and notwithstanding the proposed exercise by the Corporation of the Class E Redemption Right, to purchase all but not less than all of the issued and outstanding Class E Shares from all but not less than all of the holders of the issued and outstanding Class E Shares.

"Class F Redemption Call Right" means the overriding right of Dutchco contemplated in section 4.3 of the provisions attached to the Class F Shares pursuant to which Dutchco is entitled, upon and notwithstanding the proposed exercise by the Corporation of the Class F Redemption Right, to purchase all but not less than all of the issued and outstanding Class F Shares from all but not less than all of the holders of the issued and outstanding Class F Shares.

"Covenants" means the covenants of the Corporation contained in section 7.1 hereof and the covenant of Dutchco contained in section 7.2 hereof.

"Current Market Price" means, in respect of a Parent Common Share on any date, the Canadian Dollar Equivalent of the average of the closing prices of a Parent Common Shares on Nasdaq on each of the thirty (30) consecutive trading days ending not more than three trading days before such date, or, if the Parent Common Shares are not then quoted on Nasdaq, on such other stock exchange or automated quotation system on which the Parent Common Shares are listed or quoted, as the case may be, as may be selected by the Board of Directors for such purpose; provided, however, that if there is no public distribution or trading activity of Parent Common Shares during such period then the Current Market Price of a Parent Common Share shall be determined by the Board of Directors based upon the advice of such qualified independent financial advisors as the Board of Directors may deem to be appropriate, and provided further that any such selection, opinion or determination by the Board of Directors shall be conclusive and binding.

"Exchange Right" has the meaning ascribed thereto in section 5.1 hereof.

"Exchangeable Shares Shareholders" means the registered holders from time to time of the Exchangeable Shares other than the Parent, its subsidiaries and Affiliates.

"Insolvency Event" means the institution by the Corporation of any proceeding to be adjudicated bankrupt or insolvent or to be dissolved or wound up, or the consent of the Corporation to the institution of bankruptcy, insolvency, dissolution or winding up proceedings against it, or the filing of a petition, answer or consent seeking dissolution or winding up under any bankruptcy, insolvency or analogous laws, including without limitation the Companies Creditors' Arrangement Act (Canada) and the Bankruptcy and Insolvency Act (Canada), and the failure by the Corporation to contest in good faith any such proceedings commenced in respect of the Corporation within 15 days of becoming aware thereof, or the consent by the Corporation to the filing of any such petition or to the appointment of a receiver, or the making by the Corporation of a general assignment for the benefit of creditors, or the admission in writing by the Corporation of its inability to pay its debts generally as they become due, or the Corporation not being permitted, pursuant to solvency requirements of applicable law, to redeem any Retracted Shares pursuant to section 6.6 of the Exchangeable Share Provisions.

"Liquidation Call Right" has the meaning ascribed thereto in the Exchangeable Share Provisions.

"Liquidation Event" has the meaning ascribed thereto in section 5.12(b) hereof.

"Liquidation Event Effective Date" has the meaning ascribed thereto in section 5.12(c) hereof.

"List" has the meaning ascribed thereto in section 4.6 hereof.

"Nasdaq" means the Nasdaq National Market.

"Officer's Certificate" means, with respect to the Parent, Dutchco or the Corporation, as the case may be, a certificate signed by any one of the Chairman of the Board, a Vice-Chairman of the Board, the President, any Vice-President or any other senior officer of the Parent, Dutchco or the Corporation, as the case may be.

"Parent Consent" has the meaning ascribed thereto in section 4.2 hereof.

"Parent Meeting" has the meaning ascribed thereto in section 4.2 hereof.

"Parent Successor" has the meaning ascribed thereto in section 12.1(a) hereof.

"person" includes an individual, partnership, corporation, company, unincorporated syndicate or organization, trust, trustee, executor, administrator and other legal representative.

"Redemption Call Right" has the meaning ascribed thereto in the Exchangeable Share Provisions.

"Retracted Shares" has the meaning ascribed thereto in section 5.7 hereof.

"Retraction Call Right" has the meaning ascribed thereto in the Exchangeable Share Provisions.

"Support Agreement" means that certain support agreement made as of even date hereof between the Corporation, Dutchco and the Parent.

"Trust" means the trust created by this Agreement.

"Trust Estate" means the Voting Share, any other securities, the Exchange Right, the Automatic Exchange Rights, the Covenants and any money or other property which may be held by the Trustee from time to time pursuant to this trust agreement.

"Trustee" means Montreal Trust Company of Canada and, subject to the provisions of Article 11 hereof, includes any successor trustee.

"Voting Rights" means the voting rights attached to the Voting Share.

"Voting Share" means the one share of Series B Preferred Stock of the Parent, issued by the Parent to and deposited with the Trustee, which entitles the holder of record to a number of votes at meetings of holders of Parent Common Shares equal to that number of votes that holders of the Exchangeable Shares outstanding from time to time other than Exchangeable Shares held by the Parent, its subsidiaries and Affiliates would be entitled to if such Exchangeable Shares were exchanged for Parent Common Shares.

1.2 Interpretation Not Affected by Headings, etc. The division of this Agreement into articles, sections and paragraphs and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement.

1.3 Number, Gender, etc. Words importing the singular number only shall include the plural and vice versa. Words importing the use of any gender shall include all genders.

1.4 Date for any Action. If any date on which any action is required to be taken under this trust agreement is not a Business Day, such action shall be required to be taken on the next succeeding Business Day.

ARTICLE 2

Purpose of Agreement

2.1 Establishment of Trust. The purpose of this Agreement is to create the Trust for the benefit of the Beneficiaries, as herein provided. The Trustee will hold the Voting Share in order to enable the Trustee to exercise the Voting Rights and will hold the Exchange Right and the Automatic Exchange Rights and the other rights with respect to matters relating to the Voting Share granted in or resulting from the Trustee being a party to this Agreement in order to enable the Trustee to exercise or enforce such rights, in each case as trustee for and on behalf of the Exchangeable Shares Shareholders as provided in this Agreement. The Trustee will hold the Covenants and will hold the other rights with respect to matters relating to the Covenants granted in or resulting from the Trustee being a party to this Agreement in order to enable the Trustee to exercise or enforce such rights, in each case as trustee for and on behalf of the Class E and F Shareholders as provided in this Agreement.

ARTICLE 3

Voting Share

3.1 Issue and Ownership of the Voting Share. The Parent hereby issues to and deposits with the Trustee the Voting Share to be hereafter held of record by the Trustee as trustee for and on behalf of, and for the use and benefit of, the Beneficiaries and in accordance with the provisions of this Agreement. Parent hereby acknowledges receipt from the Trustee as trustee for and on behalf of the beneficiaries of good and valuable consideration (and the sufficiency thereof) for the issuance of the Voting Share by the Parent to the Trustee. During the term of the Trust and subject to the terms and conditions of this Agreement, the Trustee shall possess and be vested with full legal ownership of the Voting Share and shall be entitled to exercise all of the rights and powers of an owner with respect to the Voting Share, provided that the Trustee shall:

(a) hold the Voting Share and the legal title thereto as trustee solely for the use and benefit of the Beneficiaries in accordance with the provisions of this Agreement; and

(b) except as specifically authorized by this Agreement, have no power or authority to sell, transfer, vote or otherwise deal in or with the Voting Share and the Voting Share shall not be used or disposed of by the Trustee for any purpose other than the purposes for which this Trust is created pursuant to this Agreement.

3.2 Legended Share Certificates. The Corporation will cause each certificate representing Exchangeable Shares to bear an appropriate legend notifying the Beneficiaries of their right to instruct the Trustee with respect to the exercise of the Beneficiary Votes.

3.3 Safe Keeping of Certificate. The certificate representing the Voting Share shall at all times be held in safekeeping by the Trustee.

ARTICLE 4

Exercise of Voting Share

4.1 Voting Share. The Trustee, as the holder of record of the Voting Share, shall be entitled to all of the Voting Rights, including the right to consent to or to vote the Voting Share in person or by proxy, on any matter, question or proposition whatsoever that may properly come before the shareholders of the Parent at a Parent Meeting or in connection with a Parent Consent (in each case, as hereinafter defined). The Voting Rights shall be and remain vested in and exercised by the Trustee. Subject to section 8.15 hereof, the Trustee shall exercise the Voting Rights only:

(a) on the basis of instructions received pursuant to this Article 4 from Beneficiaries entitled to instruct the Trustee as to the voting thereof at the time at which the Parent Consent is sought or the Parent Meeting is held; or

(b) to the extent that no instructions are received from a Beneficiary with respect to the Voting Rights to which such Beneficiary is entitled, the Trustee shall not exercise or permit the exercise of such Voting Rights.

4.2 Number of Votes. With respect to all meetings of shareholders of the Parent at which holders of Parent Common Shares are entitled to vote (a "Parent Meeting") and with respect to all written consents sought by the Parent from its shareholders including the holders of Parent Common Shares (a "Parent Consent"), each Beneficiary shall be entitled to instruct the Trustee to cast and exercise, in the manner instructed, one of the votes comprised in the Voting Rights for each Exchangeable Share owned of record by such Beneficiary on the record date established by the Parent or by applicable law for such Parent Meeting or Parent Consent, as the case may be (the "Beneficiary Votes") in respect of each matter, question or proposition to be voted on at such Parent Meeting or to be consented to in connection with such Parent Consent.

4.3 Mailings to Shareholders. With respect to each Parent Meeting and Parent Consent, the Trustee will mail or cause to be mailed (or otherwise communicate in the same manner as the Parent utilizes in communications to holders of Parent Common Shares, subject to the Trustee being advised in writing of such method and its ability to provide this method of communication) to each of the Beneficiaries named in the List (as hereinafter defined) on the same day as the initial mailing or notice (or other communication) with respect thereto is given by the Parent to its shareholders:

(a) a copy of such notice, together with any related materials to be provided to shareholders of the Parent;

(b) a statement that such Beneficiary is entitled, subject to the provisions of section 4.7, to instruct the Trustee as to the exercise of the Beneficiary Votes with respect to such Parent Meeting or Parent Consent, as the case may be, or, pursuant and subject to section 4.7, to attend such Parent Meeting and to exercise personally the Beneficiary Votes thereat;

(c) a statement as to the manner in which such instructions may be given to the Trustee, including an express indication that instructions may be given to the Trustee to give:

(i) a proxy to such Beneficiary or his designee to exercise personally such Beneficiary's Beneficiary Votes; or

(ii) a proxy to a designated agent or other representative of the management of the Parent to exercise such Beneficiary's Beneficiary Votes;

(d) a statement that if no such instructions are received from the Beneficiary, the Beneficiary Votes to which such Beneficiary is entitled will not be exercised;

(e) a form of direction whereby the Beneficiary may so direct and instruct the Trustee as contemplated herein; and

(f) a statement of the time and date by which such instructions must be received by the Trustee in order to be binding upon it, which in the case of a Parent Meeting shall not be earlier than the close of business on the second Business Day prior to such meeting, and of the method for revoking or amending such instructions.

The materials referred to above are to be provided by Parent to the Trustee, but shall be subject to review and comment by the Trustee. For the purpose of determining the Beneficiary Votes to which a Beneficiary is entitled in respect of any such Parent Meeting or Parent Consent, the number of Exchangeable Shares owned of record by the Beneficiary shall be determined at the close of business on the record date established by the Parent or by applicable law for purposes of determining shareholders entitled to vote at such Parent Meeting or to give written consent in connection with such Parent Consent. The Parent will notify the Trustee in writing of any decision of the Board of Directors of the Parent with respect to the calling of any such Parent Meeting or the seeking of any such Parent Consent and shall provide all necessary information and materials to the Trustee in each case promptly and in any event in sufficient time to enable the Trustee to perform its obligations contemplated by this section 4.3.

4.4 Copies of Shareholder Information. The Parent will deliver to the Trustee copies of all proxy materials (including notices of Parent Meetings but excluding proxies to vote Parent Common Shares), information statements, reports (including without limitation all interim and annual financial statements) and other written communications that are to be distributed from time to time to holders of Parent Common Shares in sufficient quantities and in sufficient time so as to enable the Trustee to send or cause to be sent those materials to each Beneficiary at the same time as such materials are first sent to holders of Parent Common Shares. The Trustee will mail or otherwise send to each Beneficiary, at the expense of the Parent, copies of all such materials (and all materials specifically directed to the Beneficiaries or to the Trustee for the benefit of the Beneficiaries by the Parent) received by the Trustee from the Parent at the same time as such materials are first sent to holders of Parent Common Shares. The Trustee will also make available for inspection by any Beneficiary at the Trustee's principal corporate trust office in the cities of Toronto, Ontario and Montreal, Quebec all proxy materials, information statements, reports and other written communications that are:

(a) received by the Trustee as the registered holder of the Voting Share and made available by the Parent to the holders of Parent Common Shares; or

(b) specifically directed to the Beneficiaries or to the Trustee for the benefit of the Beneficiaries by the Parent.

4.5 Other Materials. Immediately after receipt by the Parent or any shareholder of the Parent of any material sent or given generally to the holders of Parent Common Shares by or on behalf of a third party, including without limitation dissident proxy and information circulars (and related information and material) and tender and exchange offer circulars (and related information and material), the Parent shall use its best efforts to obtain and deliver to the Trustee copies thereof in sufficient quantities so as to enable the Trustee to forward such material (unless the same has been provided directly to Beneficiaries by such third party) to each Beneficiary as soon as possible thereafter. As soon as possible after receipt thereof, the Trustee will mail or otherwise send to each Beneficiary, at the expense of the Parent, copies of all such materials received by the Trustee from the Parent. The Trustee will also make available for inspection by any Beneficiary at the Trustee's principal corporate trust office in the cities of Toronto, Ontario and Montreal, Quebec copies of all such materials.

4.6 List of Persons Entitled to Vote. The Corporation shall, (a) prior to each annual, general and special Parent Meeting or the seeking of any Parent Consent and (b) forthwith upon each request made at any time by the Trustee in writing, prepare or cause to be prepared a list (a "List") of the names and addresses of the Beneficiaries arranged in alphabetical order and showing the number of Exchangeable Shares held of record by each such Beneficiary, in each case at the close of business on the date specified by the Trustee in such request or, in the case of a List prepared in connection with a Parent Meeting or a Parent Consent, at the close of business on the record date established by the Parent or pursuant to applicable law for determining the holders of Parent Common Shares entitled to receive notice of and/or to vote at such Parent Meeting or to give consent in connection with such Parent Consent. Each such List shall be delivered to the Trustee promptly after receipt by the Corporation of such request or the record date for such meeting or seeking of consent, as the case may be, and in any event within sufficient time as to enable the Trustee to perform its obligations under this Agreement. The Parent agrees to give the Corporation notice (with a copy to the Trustee) of the calling of any Parent Meeting or the seeking of any Parent Consent, together with the record dates therefor, sufficiently prior to the date of the calling of such meeting or seeking of such consent so as to enable the Corporation to perform its obligations under this section 4.6.

4.7 Entitlement to Direct Votes. Any Beneficiary named in a List prepared in connection with any Parent Meeting or any Parent Consent will be entitled (a) to instruct the Trustee in the manner described in section 4.3 with respect to the exercise of the Beneficiary Votes to which such Beneficiary is entitled or (b) to attend such meeting and personally to exercise thereat (or to exercise with respect to any written consent), as the proxy of the Trustee, the Beneficiary Votes to which such Beneficiary is entitled.

4.8 Voting by Trustee, and Attendance of Trustee Representative, at Parent Meetings.

(a) In connection with each Parent Meeting and Parent Consent, the Trustee shall exercise, either in person or by proxy, in accordance with the instructions received from a Beneficiary pursuant to section 4.3, the Beneficiary Votes as to which such Beneficiary is entitled to direct the vote (or any lesser number thereof as may be set forth in the instructions); provided, however, that such written instructions are received by the Trustee from the Beneficiary prior to the time and date fixed by it for receipt of such instructions in the notice given by the Trustee to the Beneficiary pursuant to section 4.3.

(b) The Trustee shall cause such representatives as are empowered by it to sign and deliver, on behalf of the Trustee, proxies for Voting Rights to attend each Parent Meeting. Upon submission by a Beneficiary (or its designee) of identification satisfactory to the Trustee's representatives, and at the Beneficiary's request, such representatives shall sign and deliver to such Beneficiary (or its designee) a proxy to exercise personally the Beneficiary Votes as to which such Beneficiary is otherwise entitled hereunder to direct the vote, if such Beneficiary either (i) has not previously given the Trustee instructions pursuant to section 4.3 in respect of such meeting, or (ii) submits to the Trustee's representatives written revocation of any such previous instructions. At such meeting, the Beneficiary exercising such Beneficiary Votes shall have the same rights as the Trustee to speak at the meeting in respect of any matter, question or proposition, to vote by way of ballot at the meeting in respect of any matter, question or proposition and to vote at such meeting by way of a show of hands in respect of any matter, question or proposition.

4.9 Distribution of Written Materials. Any written materials to be distributed by the Trustee to Beneficiaries pursuant to this Agreement shall be delivered or sent by mail (or otherwise communicated in the same manner as the Parent utilizes in communications to holders of Parent Common Shares, subject to the Trustee being advised in writing of such method and its ability to provide this method of communication) to each Beneficiary at its address as shown on the books of the Corporation. The Corporation shall provide or cause to be provided to the Trustee for this purpose, on a timely basis and without charge or other expense:

(a) current lists of the Beneficiaries and the registered holders of Exchangeable Shares; and

(b) upon the request of the Trustee, mailing labels to enable the Trustee to carry out its duties under this Agreement.

4.10 Termination of Voting Rights. All of the rights of a Beneficiary with respect to the Beneficiary Votes exercisable in respect of the Exchangeable Shares held by such Beneficiary, including the right to instruct the Trustee as to the voting of or to vote personally such Beneficiary Votes, shall be deemed to be surrendered by the Beneficiary to the Parent and such Beneficiary Votes and the Voting Rights represented thereby shall cease immediately upon the delivery by such holder to the Trustee of the certificates representing such Exchangeable Shares in connection with the exercise by the Beneficiary of the Exchange Right or the occurrence of the automatic exchange of Exchangeable Shares for Parent Common Shares, as specified in Article 5 hereof (unless in either case (a) Dutchco shall not have delivered the requisite Parent Common Shares issuable in exchange therefor to the Trustee for delivery to the Beneficiaries or (b) such exchange of Exchangeable Shares for Parent Common Shares occurs after the close of business on the record date for a Parent Meeting or the seeking of a Parent Consent but prior to such Parent Meeting or the effective date of such Parent Consent), or upon the retraction or redemption of Exchangeable Shares pursuant to Article 6 or Article 7 of the Exchangeable Share Provisions, respectively, or upon the effective date of the liquidation, dissolution or winding-up of the Corporation pursuant to Article 5 of the Exchangeable Share Provisions, or upon the purchase of Exchangeable Shares from the holder thereof by Dutchco pursuant to the exercise by Dutchco of the Retraction Call Right, the Redemption Call Right or the Liquidation Call Right (unless Dutchco shall not have delivered the requisite Parent Common Shares and cheque, if any, deliverable in exchange thereof to the Trustee for delivery to the Beneficiaries and such redemption, retraction or purchase occurs after the close of business on the record date for a Parent Meeting or the seeking of a Parent Consent but prior to such Parent Meeting or the effective date of such Parent Consent).

ARTICLE 5

Exchange Right and Automatic Exchange

5.1 Grant and Ownership of the Exchange Right. Dutchco hereby grants to the Trustee as trustee for and on behalf of, and for the use and benefit of, the Beneficiaries the right (the "Exchange Right"), upon the occurrence and during the continuance of an Insolvency Event, to require Dutchco to purchase from each or any Beneficiary all or any part of the Exchangeable Shares held by the Beneficiary and the Automatic Exchange Rights, all in accordance with the provisions of this Agreement. Dutchco hereby acknowledges receipt from the Trustee as trustee for and on behalf of the Beneficiaries of good and valuable consideration (and the sufficiency thereof) for the grant of the Exchange Right and the Automatic Exchange Right by Dutchco to the Trustee. During the term of the Trust and subject to the terms and conditions of this Agreement, the Trustee shall possess and be vested with full legal ownership of the Exchange Right and the Automatic Exchange Rights and shall be entitled to exercise all of the rights and powers of an owner with respect to the Exchange Right and the Automatic Exchange Rights, provided that the Trustee shall:

(a) hold the Exchange Right and the Automatic Exchange Rights and the legal title thereto as trustee solely for the use and benefit of the Beneficiaries in accordance with the provisions of this Agreement; and

(b) except as specifically authorized by this Agreement, have no power or authority to exercise or otherwise deal in or with the Exchange Right or the Automatic Exchange Rights, and the Trustee shall not exercise any such rights for any purpose other than the purposes for which this Trust is created pursuant to this Agreement.

5.2 Legended Share Certificates. The Corporation will cause each certificate representing Exchangeable Shares to bear an appropriate legend notifying the Beneficiaries of:

(a) their right to instruct the Trustee with respect to the exercise of the Exchange Right in respect of the Exchangeable Shares held by a Beneficiary; and

(b) the Automatic Exchange Rights.

5.3 General Exercise of Exchange Right. The Exchange Right shall be and remain vested in and exercised by the Trustee. Subject to section 8.15, the Trustee shall exercise the Exchange Right only:

(a) on the basis of instructions received pursuant to this Article 5 from Beneficiaries entitled to instruct the Trustee as to the exercise thereof; or

(b) to the extent that no instructions are received from a Beneficiary with respect to the Exchange Right, the Trustee shall not exercise or permit the exercise of the Exchange Right.

5.4 Purchase Price. The purchase price payable by Dutchco for each Exchangeable Share to be purchased by Dutchco under the Exchange Right shall be an amount per share equal to (a) the Current Market Price of a Parent Common Share on the last Business Day prior to the day of closing of the purchase and sale of such Exchangeable Share under the Exchange Right plus (b) an additional amount equivalent to the full amount of all dividends declared and unpaid on each such Exchangeable Share and all dividends declared on Parent Common Shares which have not been declared on such Exchangeable Shares in accordance with section 3.1 of the Exchangeable Share Provisions (provided that if the record date for any such declared and unpaid dividends occurs on or after the day of closing of such purchase and sale the purchase price shall not include such additional amount equivalent to such declared and unpaid dividends). In connection with each exercise of the Exchange Right, Dutchco will provide to the Trustee an Officer's Certificate setting forth the calculation of the purchase price for each Exchangeable Share. The purchase price for each such Exchangeable Share so purchased may be satisfied only by Dutchco delivering or causing to be delivered to the Trustee, on behalf of the relevant Beneficiary, one Parent Common Share and a cheque for the balance, if any, of the purchase price.

5.5 Exercise Instructions. Subject to the terms and conditions herein set forth, a Beneficiary shall be entitled, upon the occurrence and during the continuance of an Insolvency Event, to instruct the Trustee to exercise the Exchange Right with respect to all or any part of the Exchangeable Shares registered in the name of such Beneficiary on the books of the Corporation. To cause the exercise of the Exchange Right by the Trustee, the Beneficiary shall deliver to the Trustee, in person or by certified or registered mail, at its principal corporate trust office in Toronto, Ontario or Montreal, Quebec or at such other places in Canada as the Trustee may from time to time designate by written notice to the Beneficiaries, the certificates representing the Exchangeable Shares which such Beneficiary desires Dutchco to purchase, duly endorsed in blank, and accompanied by such other documents and instruments as may be required to effect a transfer of Exchangeable Shares under the Companies Act (Quebec) and the by-laws of the Corporation and such additional documents and instruments as the Trustee or Dutchco may reasonably require together with (a) a duly completed form of notice of exercise of the Exchange Right, contained on the reverse of or attached to the Exchangeable Share certificates, stating (i) that the Beneficiary thereby instructs the Trustee to exercise the Exchange Right so as to require Dutchco to purchase from the Beneficiary the number of Exchangeable Shares specified therein, (ii) that such Beneficiary has good title to and owns all such Exchangeable Shares to be acquired by Dutchco free and clear of all liens, claims and encumbrances, (iii) the names in which the certificates representing the Parent Common Shares deliverable in connection with the exercise of the Exchange Right are to be issued and (iv) the names and addresses of the persons to whom such new certificates should be delivered and (b) payment (or evidence satisfactory to the Trustee, the Corporation and Dutchco of payment) of the taxes (if any) payable as contemplated by section 5.8 of this Agreement. If only a part of the Exchangeable Shares represented by any certificate or certificates delivered to the Trustee are to be purchased by Dutchco under the Exchange Right, a new certificate for the balance of such Exchangeable Shares shall be issued to the holder at the expense of the Corporation.

5.6 Delivery of Parent Common Shares; Effect of Exercise. Promptly after receipt of the certificates representing the Exchangeable Shares which the Beneficiary desires Dutchco to purchase under the Exchange Right together with such documents and instruments of transfer and a duly completed form of notice of exercise of the Exchange Right (and payment of taxes, if any, or evidence thereof), duly endorsed for transfer to Dutchco, the Trustee shall notify the Parent, Dutchco and the Corporation of its receipt of the same, which notice to the Parent, Dutchco and the Corporation shall constitute exercise of the Exchange Right by the Trustee on behalf of the holder of such Exchangeable Shares, and Dutchco shall immediately thereafter deliver or cause to be delivered to the Trustee, for delivery to the Beneficiary of such Exchangeable Shares (or to such other persons, if any, properly designated by such Beneficiary), the certificates for the number of Parent Common Shares deliverable in connection with the exercise of the Exchange Right, which shares shall be duly issued as fully paid and non-assessable and shall be free and clear of any lien, claim or encumbrance, and cheques for the balance, if any, of the total purchase price therefor. Immediately upon the giving of notice by the Trustee to the Parent, Dutchco and the Corporation of the exercise of the Exchange Right, as provided in this section 5.6, the closing of the transaction of purchase and sale contemplated by the Exchange Right shall be deemed to have occurred, and the Beneficiary of such Exchangeable Shares shall be deemed to have transferred to Dutchco all of its right, title and interest in and to such Exchangeable Shares and in the related interest in the Trust Estate and shall cease to be a holder of such Exchangeable Shares and shall not be entitled to exercise any of the rights of a holder in respect thereof, other than the right to receive such Beneficiary's proportionate part of the total purchase price therefor, unless the requisite number of Parent Common Shares (together with a cheque for the balance, if any, of the total purchase price therefor) is not allotted, issued and delivered by Dutchco to the Trustee, for delivery to such Beneficiary (or to such other persons, if any, properly designated by such Beneficiary), within five Business Days of the date of the giving of such notice by the Trustee, in which case the rights of the Beneficiary shall remain unaffected until such Parent Common Shares are so allotted, issued and delivered by Dutchco and any such cheque is so delivered and paid. Concurrently with such Beneficiary ceasing to be a holder of Exchangeable Shares, the Beneficiary shall be considered and deemed for all purposes to be the holder of the Parent Common Shares to be delivered to it pursuant to the Exchange Right.

5.7 Exercise of Exchange Right Subsequent to Retraction. In the event that a Beneficiary has exercised its right under Article 6 of the Exchangeable Share Provisions to require the Corporation to redeem any or all of the Exchangeable Shares held by the Beneficiary (the "Retracted Shares") and is notified by the Corporation pursuant to section 6.6 of the Exchangeable Share Provisions that the Corporation will not be permitted as a result of solvency requirements of applicable law to redeem all such Retracted Shares, and provided that Dutchco shall not have exercised the Retraction Call Right with respect to the Retracted Shares and that the Beneficiary has not revoked the retraction request delivered by the Beneficiary to the Corporation pursuant to section 6.7 of the Exchangeable Share Provisions, the retraction request will constitute and will be deemed to constitute notice from the Beneficiary to the Trustee instructing the Trustee to exercise the Exchange Right with respect to those Retracted Shares which the Corporation is unable to redeem. In any such event, the Corporation hereby agrees with the Trustee and in favour of the Beneficiary immediately to notify the Trustee of such prohibition against the Corporation redeeming all of the Retracted Shares and immediately to forward or cause to be forwarded to the Trustee all relevant materials delivered by the Beneficiary to the Corporation or to the transfer agent of the Exchangeable Shares (including without limitation a copy of the retraction request delivered pursuant to section 6.1 of the Exchangeable Share Provisions) in connection with such proposed redemption of the Retracted Shares and the Trustee will thereupon exercise the Exchange Right with respect to the Retracted Shares that the Corporation is not permitted to redeem and will require the Parent to purchase such shares in accordance with the provisions of this Article 5.

5.8 Stamp or Other Transfer Taxes. Upon any sale of Exchangeable Shares to Dutchco pursuant to the Exchange Right or the Automatic Exchange Rights, the share certificate or certificates representing the Parent Common Shares to be delivered in connection with the payment of the total purchase price therefor shall be issued in the name of the Beneficiary of the Exchangeable Shares so sold or in such names as such Beneficiary may otherwise direct in writing without charge to the holder of the Exchangeable Shares so sold; provided, however, that such Beneficiary (a) shall pay (and neither the Parent, Dutchco, the Corporation nor the Trustee shall be required to pay) any documentary, stamp, transfer or other taxes that may be payable in respect of any transfer involved in the issuance or delivery of such shares to a person other than such Beneficiary or (b) shall have established to the satisfaction of the Trustee, the Parent, Dutchco and the Corporation that such taxes, if any, have been paid.

5.9 Notice of Insolvency Event. Immediately upon the occurrence of an Insolvency Event or any event which with the giving of notice or the passage of time or both would be an Insolvency Event, the Corporation, Dutchco and/or the Parent, as the case may be, shall give written notice thereof to the Trustee. As soon as practicable after receiving notice from the Corporation, Dutchco and/or the Parent, as the case may be, or from any other person of the occurrence of an Insolvency Event, the Trustee will mail to each Beneficiary, at the expense of Dutchco and/or the Parent, a notice of such Insolvency Event, which notice shall contain a brief statement of the right of the Beneficiaries with respect to the Exchange Right.

5.10 Qualification of Parent Common Shares in the United States. The Parent represents and warrants that it has taken all actions and done all things as are necessary or desirable to cause the Parent Common Shares (and that it will take all actions and do all things as are necessary or desirable to cause such shares or securities into which Parent Common Shares may be reclassified or changed) to be issued and delivered pursuant to the Exchangeable Share Provisions, Exchange Right or the Automatic Exchange Rights to be freely tradeable thereafter in the United States (other than any restrictions on transfers by reason of a holder being an "affiliate" of the Parent or, prior to the Effective Date, for purposes of United States federal or state securities law). The Parent will in good faith expeditiously take all such actions and do all such things as are necessary or desirable to cause all Parent Common Shares to be delivered pursuant to the Exchangeable Share Provisions, Exchange Right or the Automatic Exchange Rights to be listed, quoted or posted for trading on all stock exchanges and quotation systems on which outstanding Parent Common Shares are listed, quoted or posted for trading at such time.

5.11 Reservation of Parent Common Shares. The Parent hereby represents, warrants and covenants that it has irrevocably reserved for issuance and will at all times keep available, free from pre-emptive and other rights, out of its authorized and unissued capital stock such number of Parent Common Shares (a) as is equal to the sum of (i) the number of Exchangeable Shares issued and outstanding from time to time and (ii) the number of Exchangeable Shares issuable upon the exercise of all rights to acquire Exchangeable Shares outstanding from time to time and (b) as are now and may hereafter be required to enable and permit the Corporation and Dutchco to meet their respective obligations hereunder, under the Support Agreement, under the Exchangeable Share Provisions and under any other security or commitment pursuant to which the Parent may now or hereafter be required to issue Parent Common Shares.

5.12 Automatic Exchange on Liquidation of the Parent.

(a) The Parent will give the Trustee notice of each of the following events at the time set forth below:

(i) in the event of any determination by the Board of Directors of the Parent to institute voluntary liquidation, dissolution or winding-up proceedings with respect to the Parent or to effect any other distribution of assets of the Parent among its shareholders for the purpose of winding up its affairs, at least 60 days prior to the proposed effective date of such liquidation, dissolution, winding-up or other distribution; and

(ii) immediately, upon the earlier of (A) receipt by the Parent of notice of and (B) the Parent otherwise becoming aware of any threatened or instituted claim, suit, petition or other proceedings with respect to the involuntary liquidation, dissolution or winding-up of the Parent or to effect any other distribution of assets of the Parent among its shareholders for the purpose of winding up its affairs.

(b) Immediately following receipt by the Trustee from the Parent of notice of any event (a "Liquidation Event") contemplated by section 5.12(a)(i) or 5.12(a)(ii) above, the Trustee will give notice thereof to the Beneficiaries. Such notice shall include a brief description of the automatic exchange of Exchangeable Shares for Parent Common Shares provided for in section 5.12(c).

(c) In order that the Beneficiaries will be able to participate on a pro rata basis with the holders of Parent Common Shares in the distribution of assets of the Parent in connection with a Liquidation Event, on the fifth Business Day prior to the effective date (the "Liquidation Event Effective Date") of a Liquidation Event all of the then outstanding Exchangeable Shares held by Beneficiaries shall be automatically exchanged for Parent Common Shares. To effect such automatic exchange, Dutchco shall purchase each Exchangeable Share outstanding on the fifth Business Day prior to the Liquidation Event Effective Date and held by Beneficiaries, and each Beneficiary shall sell the Exchangeable Shares held by it at such time, for a purchase price per share equal to (a) the Current Market Price of a Parent Common Share on the fifth Business Day prior to the Liquidation Event Effective Date, which shall be satisfied in full by Dutchco delivering or causing to be delivered to the Beneficiary one Parent Common Share, plus (b) an additional amount equivalent to the full amount of all dividends declared and unpaid on each such Exchangeable Share and all dividends declared on Parent Common Shares which have not been declared on such Exchangeable Shares in accordance with section 3.1 of the Exchangeable Share Provisions (provided that if the record date for any such declared and unpaid dividends occurs on or after the day of closing of such purchase and sale the purchase price shall not include such additional amount equivalent to such declared and unpaid dividends). In connection with such automatic exchange, the Parent will provide to the Trustee an Officer's Certificate setting forth the calculation of the purchase price for each Exchangeable Share.

(d) On the fifth Business Day prior to the Liquidation Event Effective Date, the closing of the transaction of purchase and sale contemplated by the automatic exchange of Exchangeable Shares for Parent Common Shares shall be deemed to have occurred, and each Beneficiary shall be deemed to have transferred to Dutchco all of the Beneficiary's right, title and interest in and to its Exchangeable Shares and the related interest in the Trust Estate and shall cease to be a holder of such Exchangeable Shares and Dutchco shall deliver or cause to be delivered to the Beneficiary the Parent Common Shares deliverable upon the automatic exchange of Exchangeable Shares for Parent Common Shares and shall deliver to the Trustee for delivery to the Beneficiary a cheque for the balance, if any, of the total purchase price for such Exchangeable Shares. Concurrently with such Beneficiary ceasing to be a holder of Exchangeable Shares, the Beneficiary shall be considered and deemed for all purposes to be the holder of the Parent Common Shares issued to it pursuant to the automatic exchange of Exchangeable Shares for Parent Common Shares and the certificates held by the Beneficiary previously representing the Exchangeable Shares exchanged by the Beneficiary with Dutchco pursuant to such automatic exchange shall thereafter be deemed to represent the Parent Common Shares delivered to the Beneficiary by Dutchco pursuant to such automatic exchange. Upon the request of a Beneficiary and the surrender by the Beneficiary of Exchangeable Share certificates deemed to represent Parent Common Shares, duly endorsed in blank and accompanied by such instruments of transfer as Dutchco may reasonably require, Dutchco shall deliver or cause to be delivered to the Beneficiary certificates representing the Parent Common Shares of which the Beneficiary is the holder.

5.13 Withholding Rights. Parent, Dutchco and the Trustee shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement to any holder of Exchangeable Shares such amounts as Parent, Dutchco or the Trustee is required to deduct and withhold with respect to the making of such payment under the United States Internal Revenue Code of 1986, as amended, the Income Tax Act (Canada) or any provision of state, local, provincial or foreign tax law. To the extent that amounts are so withheld, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the shares in respect of which such deduction and withholding was made, provided that such withheld amounts are actually remitted to the appropriate taxing authority. To the extent that the amount so required to be deducted or withheld from any payment to a holder exceeds the cash portion of the consideration otherwise payable to the holder, the Parent, Dutchco and the Trustee are hereby authorized to sell or otherwise dispose of at fair market value such portion of such consideration as is necessary to provide sufficient funds to the Parent, Dutchco or the Trustee, as the case may be, in order to enable it to comply with such deduction or withholding requirement and the Parent or the Trustee shall give an accounting to the holder with respect thereto and any balance of such sale proceeds.

ARTICLE 6

Restrictions on Issue of Parent Special Voting Stock

6.1 Issue of Additional Shares. During the term of this Agreement, the Parent will not create, issue or allot (or make any agreement to so do) any other shares of Series B Preferred Stock of the Parent in addition to the Voting Share.

ARTICLE 7

Covenants

7.1 Corporation Covenant. Immediately following the Class B Conversion Time, the Corporation will give notice to Dutchco of its intention to exercise the Class E Redemption Right and the Class F Redemption Right as provided in the share provisions for the Class E Shares and the Class F Shares and this Agreement shall constitute good and valid notice by the Corporation to Dutchco of its intention to exercise such redemptions.

7.2 Dutchco Covenant. Immediately upon the Corporation providing notice to Dutchco of its intention to exercise the Class E Redemption Right and the Class F Redemption Right as contemplated in section 7.1 hereof, Dutchco will exercise the Class E Redemption Call Right and the Class F Redemption Call Right and this Agreement shall constitute good and valid notice by Dutchco to the Corporation of its exercise of both the Class E Redemption Call Right and the Class F Redemption Call Right.

7.3 Trust. The Corporation makes the covenant contained in section 7.1 hereof, and Dutchco makes the covenant contained in section 7.2 hereof, to and in favour of the Trustee for the benefit of the Class E and F Shareholders and acknowledges that the Trustee shall hold the Covenants as trustee for and on behalf of the Class E and F Shareholders and in accordance with the provisions of this Agreement. Each of the Corporation and Dutchco hereby acknowledges receipt from the Trustee as trustee for and on behalf of such Class E and F Shareholders of good and valuable consideration (and the sufficiency thereof) for the making of such covenants to the Trustee. Until such time as all Class E Shares and Class F Shares held by holders other than Parent, its subsidiaries and the Affiliates have been redeemed and subject to the terms and conditions of this Agreement, the Trustee shall possess and be entitled to exercise all of the rights and powers of an owner of the Class E Shares and Class F Shares, provided that the Trustee shall:

(a) hold the rights associated with the Covenants as trustee solely for the use and benefit of the Class E and F Shareholders in accordance with the provisions of this Agreement; and

(b) except as specifically authorized by this Agreement, have no power or authority to deal in or with the Covenants or the Class E Shares and the Class F Shares for any purpose other than the purposes for which this Trust is created pursuant to this Agreement.

ARTICLE 8

Concerning the Trustee

8.1 Powers and Duties of the Trustee. The rights, powers and authorities of the Trustee under this Agreement, in its capacity as trustee of the Trust, shall include:

(a) purchasing the Voting Share from the Parent as trustee for and on behalf of the Beneficiaries in accordance with the provisions of this Agreement;

(b) granting proxies and distributing materials to Beneficiaries as provided in this Agreement;

(c) voting the Beneficiary Votes in accordance with the provisions of this Agreement;

(d) receiving the grant of the Exchange Right and the Automatic Exchange Rights from Dutchco as trustee for and on behalf of the Beneficiaries in accordance with the provisions of this Agreement;

(e) receiving the Covenants from Dutchco and the Corporation for and on behalf of the Beneficiaries in accordance with the provisions of this Agreement;

(f) exercising the Exchange Right and enforcing the benefit of the Automatic Exchange Rights, in each case in accordance with the provisions of this Agreement, and in connection therewith receiving from Beneficiaries Exchangeable Shares and other requisite documents and distributing to such Beneficiaries the Parent Common Shares and cheques, if any, to which such Beneficiaries are entitled upon the exercise of the Exchange Right or pursuant to the Automatic Exchange Rights, as the case may be;

(g) holding title to the Trust Estate;

(h) investing any monies forming, from time to time, a part of the Trust Estate as provided in this Agreement;

(i) taking action on its own initiative or at the direction of a Beneficiary or Beneficiaries to enforce the obligations of the Parent, Dutchco and/or the Corporation under this Agreement; and

(j) taking such other actions and doing such other things as are specifically provided in this Agreement.

In the exercise of such rights, powers and authorities, the Trustee shall have (and is granted) such incidental and additional rights, powers and authority not in conflict with any of the provisions of this Agreement as the Trustee, acting in good faith and in the reasonable exercise of its discretion, may deem necessary, appropriate or desirable to effect the purpose of the Trust. Any exercise of such discretionary rights, powers and authorities by the Trustee shall be final, conclusive and binding upon all persons affected thereunder, including the Parties hereto and the Beneficiaries. For greater certainty, the Trustee shall have only those duties as are set out specifically in this Agreement.

The Trustee in exercising its rights, powers, duties and authorities hereunder shall act honestly and in good faith with a view to the best interests of the Beneficiaries and shall exercise the care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances.

8.2 No Conflict of Interest. The Trustee represents to the Corporation, Dutchco and the Parent that at the date of execution and delivery of this Agreement there exists no material conflict of interest in the role of the Trustee as a fiduciary hereunder and the role of the Trustee in any other capacity. The Trustee shall, within 90 days after it becomes aware that such a material conflict of interest exists, either eliminate such material conflict of interest or resign in the manner and with the effect specified in Article 11. If, notwithstanding the foregoing provisions of this section 8.2, the Trustee has such a material conflict of interest, the validity and enforceability of this Agreement shall not be affected in any manner whatsoever by reason only of the existence of such material conflict of interest. If the Trustee contravenes the foregoing provisions of this section 8.2, any Party hereto or Beneficiary may apply to the Ontario Court General Division for an order that the Trustee be replaced as trustee hereunder.

8.3 Dealings with Transfer Agents, Registrars, etc. The Corporation, Dutchco and the Parent irrevocably authorize the Trustee, from time to time, to:

(a) consult, communicate and otherwise deal with the respective registrars and transfer agents, and with any such subsequent registrar or transfer agent, of the Exchangeable Shares and the Parent Common Shares; and

(b) requisition, from time to time, (i) from any such registrar or transfer agent any information readily available from the records maintained by it which the Trustee may reasonably require for the discharge of its duties and responsibilities under this Agreement and (ii) from the registrar or transfer agent of the Parent Common Shares, and any subsequent registrar or transfer agent of such shares, the share certificates issuable upon the exercise from time to time of the Exchange Right and pursuant to the automatic exchange of Exchangeable Shares for Parent Common Shares in the manner specified in Article 5 hereof.

The Corporation, Dutchco and the Parent irrevocably authorize their respective registrars and transfer agents to comply with all such requests. The Parent and Dutchco covenant that they will supply the Parent's registrar or transfer agent with duly executed share certificates for the purpose of completing the exercise from time to time of the Exchange Right and the automatic exchange of Exchangeable Shares for Parent Common Shares, in each case pursuant to Article 5 hereof.

8.4 Books and Records. The Trustee shall keep available for inspection by the Parent, Dutchco and the Corporation, at the Trustee's principal corporate trust office in Toronto, Ontario and Montreal, Quebec correct and complete books and records of account relating to the Trustee's actions under this Agreement, including without limitation all information relating to mailings and instructions to and from Beneficiaries and all transactions pursuant to the Exchange Right and the Automatic Exchange Rights. On or before March 31, 1999, and on or before March 31 in every year thereafter, so long as the Voting Share is on deposit with the Trustee, the Trustee shall transmit to the Parent, Dutchco and the Corporation a brief report, dated as of the preceding December 31, with respect to:

(a) the property and funds comprising the Trust Estate as of that date;

(b) the number of exercises of the Exchange Right, if any, and the aggregate number of Exchangeable Shares received by the Trustee on behalf of Beneficiaries in consideration of delivery by Dutchco of Parent Common Shares and any other consideration in connection with the Exchange Right, during the calendar year ended on such date; and

(c) all other actions taken by the Trustee in the performance of its duties under this Agreement which it had not previously reported.

8.5 Income Tax Returns and Reports. The Trustee shall, to the extent necessary, prepare and file on behalf of the Trust appropriate United States and Canadian income tax returns and any other returns or reports as may be required by applicable law or pursuant to the rules and regulations of any securities exchange or other trading system, if any, through which the Exchangeable Shares are traded and, in connection therewith and without limiting the generality of section 8.10 hereof, may obtain the advice and assistance of such experts as the Trustee may consider necessary or advisable.

8.6 Indemnification Prior to Certain Actions by Trustee. The Trustee shall exercise any or all of the rights, duties, powers or authorities vested in it by this Agreement at the request, order or direction of any Beneficiary upon such Beneficiary furnishing to the Trustee reasonable funding, security and indemnity against the costs, expenses and liabilities which may be incurred by the Trustee therein or thereby, provided that no Beneficiary shall be obligated to furnish to the Trustee any such funding, security or indemnity in connection with the exercise by the Trustee of any of its rights, duties, powers and authorities with respect to the Voting Share pursuant to Article 4 hereof, subject to section 8.15, and with respect to the Exchange Right pursuant to Article 5 hereof, subject to section 8.15, and with respect to the Automatic Exchange Rights pursuant to Article 5 hereof.

None of the provisions contained in this Agreement shall require the Trustee to expend or risk its own funds or otherwise incur financial liability in the exercise of any of its rights, powers, duties or authorities unless funded, given security and indemnified as aforesaid.

8.7 Actions by Beneficiaries. No Beneficiary shall have the right to institute any action, suit or proceeding or to exercise any other remedy authorized by this Agreement for the purpose of enforcing any of its rights or for the execution of any trust or power hereunder unless the Beneficiary has requested the Trustee to take or institute such action, suit or proceeding and furnished the Trustee with the funding, security and indemnity referred to in section 8.6 and the Trustee shall have failed to act within a reasonable time thereafter. In such case, but not otherwise, the Beneficiary shall be entitled to take proceedings in any court of competent jurisdiction such as the Trustee might have taken; it being understood and intended that no one or more Beneficiaries shall have any right in any manner whatsoever to affect, disturb or prejudice the rights hereby created by any such action, or to enforce any right hereunder or under the Voting Rights, the Exchange Rights or the Automatic Exchange Rights except subject to the conditions and in the manner herein provided, and that all powers and trusts hereunder shall be exercised and all proceedings at law shall be instituted, had and maintained by the Trustee, except only as herein provided, and in any event for the equal benefit of all Beneficiaries.

8.8 Reliance upon Declarations. The Trustee shall not be considered to be in contravention of any of its rights, powers, duties and authorities hereunder if, when required, it acts and relies in good faith upon lists, mailing labels, notices, statutory declarations, certificates, opinions, reports or other papers or documents furnished pursuant to the provisions hereof or required by the Trustee to be furnished to it in the exercise of its rights, powers, duties and authorities hereunder if such lists, mailing labels, notices, statutory declarations, certificates, opinions, reports or other papers or documents comply with the provisions of section 8.9 hereof, if applicable, and with any other applicable provisions of this Agreement.

8.9 Evidence and Authority to Trustee. The Corporation, Dutchco and/or the Parent shall furnish to the Trustee evidence of compliance with the conditions provided for in this Agreement relating to any action or step required or permitted to be taken by the Corporation, Dutchco and/or the Parent or the Trustee under this agreement or as a result of any obligation imposed under this Agreement, including, without limitation, in respect of the Voting Rights or the Exchange Right or the Automatic Exchange Rights and the taking of any other action to be taken by the Trustee at the request of or on the application of the Corporation, Dutchco and/or the Parent forthwith if and when:

(a) such evidence is required by any other section of this Agreement to be furnished to the Trustee in accordance with the terms of this section 8.9; or

(b) the Trustee, in the exercise of its rights, powers, duties and authorities under this Agreement, gives the Corporation, Dutchco and/or the Parent written notice requiring it to furnish such evidence in relation to any particular action or obligation specified in such notice.

Such evidence shall consist of an Officer's Certificate of the Corporation, Dutchco and/or the Parent or a statutory declaration or a certificate made by persons entitled to sign an Officer's Certificate stating that any such condition has been complied with in accordance with the terms of this Agreement.

Whenever such evidence relates to a matter other than the Voting Rights or the Exchange Right or the automatic exchange of Exchangeable Shares for Parent Common Shares pursuant to section 5.12, and except as otherwise specifically provided herein, such evidence may consist of a report or opinion of any solicitor, auditor, accountant, appraiser, valuer, engineer or other expert or any other person whose qualifications give authority to a statement made by him, provided that if such report or opinion is furnished by a director, officer or employee of the Corporation, Dutchco and/or the Parent it shall be in the form of an Officer's Certificate or a statutory declaration.

Each statutory declaration, certificate, opinion or report furnished to the Trustee as evidence of compliance with a condition provided for in this Agreement shall include a statement by the person giving the evidence:

(a) declaring that he has read and understands the provisions of this Agreement relating to the condition in question;

(b) describing the nature and scope of the examination or investigation upon which he based the statutory declaration, certificate, statement or opinion; and

(c) declaring that he has made such examination or investigation as he believes is necessary to enable him to make the statements or give the opinions contained or expressed therein.

8.10 Experts, Advisers and Agents. The Trustee may:

(a) in relation to these presents act and rely on the opinion or advice of or information obtained from any solicitor, auditor, accountant, appraiser, valuer, engineer or other expert, whether retained by the Trustee or by the Corporation, Dutchco and/or the Parent or otherwise, and may employ such assistants as may be necessary to the proper discharge of its powers and duties and determination of its rights hereunder and may pay proper and reasonable compensation for all such legal and other advice or assistance as aforesaid; and

(b) employ such agents and other assistants as it may reasonably require for the proper discharge of its powers and duties hereunder, and may pay reasonable remuneration for all services performed for it (and shall be entitled to receive reasonable remuneration for all services performed by it) in the discharge of the trusts hereof and compensation for all disbursements, costs and expenses made or incurred by it in the discharge of its duties hereunder and in the management of the Trust.

8.11 Investment of Moneys Held By Trustee. Unless otherwise provided in this Agreement, any moneys held by or on behalf of the Trustee which under the terms of this Agreement may or ought to be invested or which may be on deposit with the Trustee or which may be in the hands of the Trustee may be invested and reinvested in the name or under the control of the Trustee in securities in which, under the laws of the Province of Ontario or the Province of Quebec, trustees are authorized to invest trust moneys, provided that such securities are stated to mature within two years after their purchase by the Trustee, and the Trustee shall so invest such moneys on the written direction of the Corporation. Pending the investment of any moneys as hereinbefore provided, such moneys may be deposited in the name of the Trustee at a chartered bank in Canada or, with the consent of the Corporation, in the deposit department of the Trustee or any other loan or trust the Corporation authorized to accept deposits under the laws of Canada or any province thereof at the rate of interest then current on similar deposits.

8.12 Trustee Not Required to Give Security. The Trustee shall not be required to give any bond or security in respect of the execution of the trusts, rights, duties, powers and authorities of this Agreement or otherwise in respect of the premises.

8.13 Trustee Not Bound to Act on the Corporation's Request. Except as in this Agreement otherwise specifically provided, the Trustee shall not be bound to act in accordance with any direction or request of the Corporation and/or the Parent or of their respective Boards of Directors until a duly authenticated copy of the instrument or resolution containing such direction or request shall have been delivered to the Trustee, and the Trustee shall be empowered to act and rely upon any such copy purporting to be authenticated and believed by the Trustee to be genuine.

8.14 Authority to Carry on Business. The Trustee represents to the Corporation, Dutchco and the Parent that at the date of execution and delivery by it of this Agreement it is authorized to carry on the business of a trust company in the Province of Quebec and the Province of Ontario but if, notwithstanding the provisions of this section 8.14, it ceases to be so authorized to carry on business, the validity and enforceability of this Agreement, the Covenants, the Voting Rights, the Exchange Right and the Automatic Exchange Rights shall not be affected in any manner whatsoever by reason only of such event but the Trustee shall, within 90 days after ceasing to be authorized to carry on the business of a trust company in the Province of Quebec and in the Province of Ontario, either become so authorized or resign in the manner and with the effect specified in Article 11.

8.15 Conflicting Claims. If conflicting claims or demands are made or asserted with respect to any interest of any Beneficiary in any Exchangeable Shares, including any disagreement between the heirs, representatives, successors or assigns succeeding to all or any part of the interest of any Beneficiary in any Exchangeable Shares resulting in conflicting claims or demands being made in connection with such interest, then the Trustee shall be entitled, at its sole discretion, to refuse to recognize or to comply with any such claim or demand. In so refusing, the Trustee may elect not to exercise any Voting Rights, Exchange Right or Automatic Exchange Rights, the Covenants subject to such conflicting claims or demands and, in so doing, the Trustee shall not be or become liable to any person on account of such election or its failure or refusal to comply with any such conflicting claims or demands. The Trustee shall be entitled to continue to refrain from acting and to refuse to act until:

(a) the rights of all adverse claimants with respect to the Voting Rights, Exchange Right Automatic Exchange Rights or the Covenants subject to such conflicting claims or demands have been adjudicated by a final judgment of a court of competent jurisdiction; or

(b) all differences with respect to the Voting Rights, Exchange Right or Automatic Exchange Rights subject to such conflicting claims or demands have been conclusively settled by a valid written agreement binding on all such adverse claimants, and the Trustee shall have been furnished with an executed copy of such agreement.

If the Trustee elects to recognize any claim or comply with any demand made by any such adverse claimant, it may in its discretion require such claimant to furnish such surety bond or other security satisfactory to the Trustee as it shall deem appropriate fully to indemnify it as between all conflicting claims or demands.

8.16 Acceptance of Trust. The Trustee hereby accepts the Trust created and provided for by and in this Agreement and agrees to perform the same upon the terms and conditions herein set forth and to hold all rights, privileges and benefits conferred hereby and by law in trust for the various persons who shall from time to time be Beneficiaries, subject to all the terms and conditions herein set forth.

ARTICLE 9

Compensation

9.1 Fees and Expenses of the Trustee. The Parent, Dutchco and the Corporation jointly and severally agree to pay to the Trustee reasonable compensation for all of the services rendered by it under this Agreement and will reimburse the Trustee for all reasonable expenses (including taxes) and disbursements, including the cost and expense of any suit or litigation of any character and any proceedings before any governmental agency reasonably incurred by the Trustee in connection with its rights and duties under this Agreement; provided that the Parent, Dutchco and the Corporation shall have no obligation to reimburse the Trustee for any expenses or disbursements paid, incurred or suffered by the Trustee in any suit or litigation in which the Trustee is determined to have acted in bad faith or with negligence or wilful misconduct.

ARTICLE 10

Indemnification and Limitation of Liability

10.1 Indemnification of the Trustee. The Parent, Dutchco and the Corporation jointly and severally agree to indemnify and hold harmless the Trustee and each of its directors, officers, employees and agents appointed and acting in accordance with this Agreement (collectively, the "Indemnified Parties") against all claims, losses, damages, costs, penalties, fines and reasonable expenses (including reasonable expenses of the Trustee's legal counsel) which, without fraud, negligence, wilful misconduct or bad faith on the part of such Indemnified Party, may be paid, incurred or suffered by the Indemnified Party by reason of or as a result of the Trustee's acceptance or administration of the Trust, its compliance with its duties set forth in this Agreement, or any written or oral instructions delivered to the Trustee by the Parent, Dutchco or the Corporation pursuant hereto. In no case shall the Parent, Dutchco or the Corporation be liable under this indemnity for any claim against any of the Indemnified Parties unless the Parent, Dutchco and the Corporation shall be notified by the Trustee of the written assertion of a claim or of any action commenced against the Indemnified Parties, promptly after any of the Indemnified Parties shall have received any such written assertion of a claim or shall have been served with a summons or other first legal process giving information as to the nature and basis of the claim. Subject to clause (ii) below, the Parent, Dutchco and the Corporation shall be entitled to participate at their own expense in the defence and, if the Parent, Dutchco or the Corporation so elect at any time after receipt of such notice, either of them may assume the defence of any suit brought to enforce any such claim. The Trustee shall have the right to employ separate counsel in any such suit and participate in the defence thereof but the fees and expenses of such counsel shall be at the expense of the Trustee unless: (i) the employment of such counsel has been authorized by the Parent, Dutchco or the Corporation; or (ii) the named parties to any such suit include both the Trustee and the Parent, Dutchco or the Corporation and the Trustee shall have been advised by counsel acceptable to the Parent or the Corporation that there may be one or more legal defenses available to the Trustee which are different from or in addition to those available to the Parent or the Corporation (in which case the Parent, Dutchco and the Corporation shall not have the right to assume the defence of such suit on behalf of the Trustee but shall be liable to pay the reasonable fees and expenses of counsel for the Trustee).

10.2 Limitation of Liability. The Trustee shall not be held liable for any loss which may occur by reason of depreciation of the value of any part of the Trust Estate or any loss incurred on any investment of funds pursuant to this Agreement, except to the extent that such loss is attributable to the fraud, negligence, wilful misconduct or bad faith on the part of the Trustee.

ARTICLE 11

Change of Trustee

11.1 Resignation. The Trustee, or any trustee hereafter appointed, may at any time resign by giving written notice of such resignation to the Parent, Dutchco and the Corporation specifying the date on which it desires to resign, provided that such notice shall never be given less than 60 days before such desired resignation date unless the Parent, Dutchco and the Corporation otherwise agree and provided further that such resignation shall not take effect until the date of the appointment of a successor trustee and the acceptance of such appointment by the successor trustee. Upon receiving such notice of resignation, the Parent, Dutchco and the Corporation shall promptly appoint a successor trustee by written instrument in duplicate, one copy of which shall be delivered to the resigning trustee and one copy to the successor trustee.

11.2 Removal. The Trustee, or any trustee hereafter appointed, may be removed at any time on 60 days' prior notice by written instrument executed by the Parent, Dutchco and the Corporation, in duplicate, one copy of which shall be delivered to the trustee so removed and one copy to the successor trustee provided that such removal shall not take effect until the date of the appointment of a successor trustee and the acceptance of such appointment by the successor trustee.

11.3 Successor Trustee. Any successor trustee appointed as provided under this Agreement shall execute, acknowledge and deliver to the Parent, Dutchco and the Corporation and to its predecessor trustee an instrument accepting such appointment. Thereupon, the resignation or removal of the predecessor trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, duties and obligations of its predecessor under this Agreement, with like effect as if originally named as trustee in this Agreement. However, on the written request of the Parent, Dutchco and the Corporation or of the successor trustee, the trustee ceasing to act shall, upon payment of any amounts then due it pursuant to the provisions of this Agreement, execute and deliver an instrument transferring to such successor trustee all the rights and powers of the trustee so ceasing to act. Upon the request of any such successor trustee, the Parent, Dutchco, the Corporation and such predecessor trustee shall execute any and all instruments in writing for more fully and certainly vesting in and confirming to such successor trustee all such rights and powers.

11.4 Notice of Successor Trustee. Upon acceptance of appointment by a successor trustee as provided herein, the Parent, Dutchco and the Corporation shall cause to be mailed notice of the succession of such trustee hereunder to each Beneficiary specified in a List. If the Parent, Dutchco or the Corporation shall fail to cause such notice to be mailed within 10 days after acceptance of appointment by the successor trustee, the successor trustee shall cause such notice to be mailed at the expense of the Parent, Dutchco and the Corporation.

ARTICLE 12

Parent Successors

12.1 Certain Requirements in Respect of Combination, etc. The Parent shall not enter into any transaction (whether by way of reconstruction, reorganization, consolidation, merger, transfer, sale, lease or otherwise) whereby all or substantially all of its undertaking, property and assets would become the property of any other person or, in the case of a merger, of the continuing corporation resulting therefrom unless:

(a) such other person or continuing corporation is a corporation (herein called the "Parent Successor") incorporated under the laws of any state of the United States or the laws of Canada or any province thereof;

(b) the Parent Successor, by operation of law, becomes, without more, bound by the terms and provisions of this Agreement or, if not so bound, executes, prior to or contemporaneously with the consummation of such transaction a agreement supplemental hereto and such other instruments (if any) as are satisfactory to the Trustee and in the opinion of legal counsel to the Trustee are necessary or advisable to evidence the assumption by the Parent Successor of liability for all moneys payable and property deliverable hereunder and the covenant of such Parent Successor to pay and deliver or cause to be delivered the same and its agreement to observe and perform all the covenants and obligations of the Parent under this Agreement; and

(c) such transaction shall, to the satisfaction of the Trustee and in the opinion of legal counsel to the Trustee, be upon such terms as substantially to preserve and not to impair in any material respect any of the rights, duties, powers and authorities of the Trustee or of the Beneficiaries hereunder.

12.2 Vesting of Powers in Successor. Whenever the conditions of section 12.1 hereof have been duly observed and performed, the Trustee, if required, by section 12.1 hereof, the Parent Successor and the Corporation shall execute and deliver the supplemental agreement provided for in Article 13 and thereupon the Parent Successor shall possess and from time to time may exercise each and every right and power of the Parent under this Agreement in the name of the Parent or otherwise and any act or proceeding by any provision of this Agreement required to be done or performed by the Board of Directors of the Parent or any officers of the Parent may be done and performed with like force and effect by the Board of Directors or officers of such Parent Successor.

12.3 Wholly-Owned Subsidiaries. Nothing herein shall be construed as preventing the amalgamation or merger of any wholly-owned subsidiary of the Parent with or into the Parent or the winding-up, liquidation or dissolution of any wholly-owned subsidiary of the Parent provided that all of the assets of such subsidiary are transferred to the Parent or another wholly-owned subsidiary of the Parent and any such transactions are expressly permitted by this Article 12.

ARTICLE 13

Amendments and Supplemental Trust Agreements

13.1 Amendments, Modifications, etc. Except as contemplated by section 13.2 below, this Agreement may not be amended or modified except by an agreement in writing executed by the Corporation, the Parent, Dutchco and the Trustee and approved by the holders of Exchangeable Shares in accordance with section 10.2 of the Exchangeable Share Provisions provided that the Trustee shall not agree to any amendment to the provisions of Article 7 or waive any right thereunder without the consent of the Class E and F Shareholders at a meeting of those holders held in accordance with the provisions attaching to the Class E Shares and the Class F Shares.

13.2 Ministerial Amendments. Notwithstanding the provisions of section 13.1 hereof, the parties to this Agreement may in writing, at any time and from time to time, without the approval of the Beneficiaries, amend or modify this Agreement for the purposes of:

(a) adding to the covenants of any party hereto for the protection of the Corporation or the Beneficiaries hereunder;

(b) making such provisions or modifications not inconsistent with this Agreement as may be necessary or desirable with respect to matters or questions arising hereunder which, in the opinion of the Board of Directors of each of the Parent, Dutchco and the Corporation and in the opinion of the Trustee and its counsel, having in mind the best interests of the Beneficiaries as a whole, it may be expedient to make, provided that such Boards of Directors and the Trustee and its counsel shall be of the opinion that such provisions and modifications will not be prejudicial to the interests of the Beneficiaries; or

(c) making such changes or corrections hereto which, on the advice of counsel to the Corporation, the Parent, Dutchco and the Trustee, are required for the purpose of curing or correcting any ambiguity or defect or inconsistent provision or clerical omission or mistake or manifest error contained herein, provided that the Trustee and its counsel and the Board of Directors of each of the Corporation, Dutchco and the Parent shall be of the opinion that such changes or corrections will not be prejudicial to the interests of the Beneficiaries.

13.3 Meeting to Consider Amendments. The Corporation, at the request of the Parent, shall call a meeting or meetings of the Beneficiaries for the purpose of considering any proposed amendment or modification requiring approval pursuant hereto. Any such meeting or meetings shall be called and held in accordance with the by-laws of the Corporation, the Exchangeable Share Provisions, the articles of the Corporation and all applicable laws.

13.4 Changes in Capital of Parent and the Corporation. At all times after the occurrence of any event effected pursuant to section 2.7 or section 2.8 of the Support Agreement, as a result of which either the Parent Common Shares or the Exchangeable Shares or both are in any way changed, this Agreement shall forthwith be amended and modified as necessary in order that it shall apply with full force and effect, mutatis mutandis, to all new securities into which the Parent Common Shares or the Exchangeable Shares or both are so changed and the parties hereto shall execute and deliver a supplemental agreement giving effect to and evidencing such necessary amendments and modifications.

13.5 Execution of Supplemental Agreements. No amendment to or modification or waiver of any of the provisions of this Agreement otherwise permitted hereunder shall be effective unless made in writing and signed by all of the parties hereto. From time to time the Corporation (when authorized by a resolution of the Board of Directors), Dutchco (when authorized by a resolution of its Board of Directors), the Parent (when authorized by a resolution of its Board of Directors) and the Trustee may, subject to the provisions of these presents, and they shall, when so directed by these presents, execute and deliver by their proper officers, agreements or other instruments supplemental hereto, which thereafter shall form part hereof, for any one or more of the following purposes:

(a) evidencing the succession of Parent Successors to the Parent and the covenants of and obligations assumed by each such Parent Successor in accordance with the provisions of Article 12 and the successor of any successor trustee in accordance with the provisions of Article 11;

(b) making any additions to, deletions from or alterations of the provisions of this Agreement or the Voting Rights, the Exchange Right, the Automatic Exchange Rights or the Covenants which, in the opinion of the Trustee and its counsel, will not be prejudicial to the interests of the Beneficiaries as a whole or are in the opinion of counsel to the Trustee necessary or advisable in order to incorporate, reflect or comply with any legislation the provisions of which apply to the Parent, Dutchco, the Corporation, the Trustee or this Agreement; and

(c) for any other purposes not inconsistent with the provisions of this Agreement, including without limitation to make or evidence any amendment or modification to this Agreement as contemplated hereby, provided that, in the opinion of the Trustee and its counsel, the rights of the Trustee and the Beneficiaries as a whole will not be prejudiced thereby.

ARTICLE 14

Termination

14.1 Term. The Trust created by this Agreement shall be effective upon the issuance by the Corporation of Class E Shares, Class F Shares and/or Exchangeable Shares and shall continue until the earliest to occur of the following events:

(a) no outstanding Exchangeable Shares are held by a Beneficiary;

(b) each of the Corporation, Dutchco and the Parent elects in writing to terminate the Trust and such termination is approved by the Beneficiaries of the Exchangeable Shares in accordance with section 10.2 of the Exchangeable Share Provisions; and

(c) 21 years after the death of the last survivor of the descendants of His Majesty King George VI of the United Kingdom of Great Britain and Northern Ireland living on the date of the creation of the Trust.

14.2 Survival of Agreement. This Agreement shall be effective upon the issuance by the Corporation of Class E Shares, Class F Shares and/or Exchangeable Shares and shall survive any termination of the Trust and shall continue until there are no Exchangeable Shares outstanding held by a Beneficiary; provided, however, that the provisions of Articles 9 and 10 shall survive any such termination of this Agreement.

ARTICLE 15

General

15.1 Severability. If any provision of this Agreement is held invalid, illegal or unenforceable, the validity, legality or enforceability of the remainder of this Agreement shall not in any way be affected or improved thereby and this Agreement shall be carried and as near as possible in accordance with its original terms and conditions; and to this end the provisions of this Agreement are intended to be and shall be deemed severable; provided, however, that if the provision or provisions so held to be invalid, in the reasonable judgment of the parties hereto, is or are so fundamental to the intent of the parties hereto and the operation of this Agreement that the enforcement of the other provisions hereof, in the absence of such invalid provision or provisions, would damage irreparably the intent of the parties in entering into this Agreement, the parties hereto shall agree to amend or otherwise modify this Agreement so as to carry out the intent and purposes hereof and the transactions contemplated hereby.

15.2 Enurement. This Agreement shall be binding upon and enure to the benefit of the parties hereto and their respective successors and permitted assigns and to the benefit of the Beneficiaries.

15.3 Notices to Parties. All notices and other communications between the parties hereunder shall be in writing and shall be deemed to have been given if delivered personally or by confirmed telecopy to the parties at the following addresses (or at such other address for such party as shall be specified in like notice):

a) if to the Parent or Dutchco at:

Autodesk, Inc.
20400 Stevens Creek Boulevard
Cupertino, CA 95401-2217
Attention: Marcia K. Sterling
Vice President Business Development, General Counsel and Secretary
Telecopy: (408) 517-1886

(b) if to the Corporation at:

Discreet Logic Inc.
10 Duke Street
Montreal, Quebec
Canada H3C 2L7
Attention: Francois Plamondon
Executive Vice President, Chief Financial Officer, Treasurer and Secretary
Telecopy: (514) 393-3996

(c) if to the Trustee at:

Montreal Trust Company of Canada
6th Floor
1800 McGill College Avenue
Montreal, Quebec
H3A 3K9
Attention: .
Telecopy: (514) .

Any notice or other communication given personally shall be deemed to have been given and received upon delivery thereof and if given by telecopy shall be deemed to have been given and received on the date of confirmed receipt thereof, provided such notice or other communication is received prior to 5:00 p.m. (local time) on a Business Day, and otherwise it shall be deemed to have been given and received upon the immediately following Business Day.

15.4 Notice of Beneficiaries. Any and all notices to be given and any documents to be sent to any Beneficiaries may be given or sent to the address of such Beneficiary shown on the register of holders of Exchangeable Shares, Class E Shares or Class F Shares as the case may be, in any manner permitted by the by-laws of the Corporation from time to time in force in respect of notices to shareholders and the provisions of the then prevailing law and shall be deemed to be received (if given or sent in such manner) at the time specified in such by-laws and the provisions of the then prevailing law, the provisions of which by-laws shall apply mutatis mutandis to notices or documents as aforesaid sent to such holders.

15.5 Risk of Payments by Post. Whenever payments are to be made or documents are to be sent to any Beneficiary by the Trustee or by the Corporation, or by such Beneficiary to the Trustee or to the Parent, Dutchco or the Corporation, the making of such payment or sending of such document sent through the post shall be at the risk of the Corporation, in the case of payments made or documents sent by the Trustee or the Corporation, and the Beneficiary, in the case of payments made or documents sent by the Beneficiary.

15.6 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

15.7 Jurisdiction. This Agreement shall be construed and enforced in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

15.8 Attornment. Each of the Parent, Dutchco and the Corporation agree that any action or proceeding arising out of or relating to this Agreement may be instituted in the courts of Ontario waive any objection which it may have now or hereafter to the venue of any such action or proceeding, irrevocably submits to the non-exclusive jurisdiction of the said courts in any such action or proceeding, agrees to be bound by any judgment of the said courts and not to seek, and hereby waives, any review of the merits of any such judgment by the courts of any other jurisdiction and each of Parent, Dutchco and the Corporation hereby appoint Aird & Berlis at its office in Toronto as Parent's, Dutchco's and the Corporation's attorney for service of process.

15.9 Guaranty/Assignment. The Parent hereby unconditionally and irrevocably guarantees the prompt and full performance by Dutchco of, and shall cause Dutchco to comply with, its obligations hereunder. Dutchco, upon prior notice to the Trustee, may assign all or a portion of its rights and obligations hereunder to the Parent or any Affiliate thereof, which shall thereupon assume such assigned rights and obligations, without the consent of the Trustee, the Beneficiary, or the Corporation subject to the Trustee, the Corporation and the Parent or Affiliate, as the case may be, entering into a supplemental agreement pursuant to section 13.5(c) reflecting such assignment and assumption. This Agreement may not be assigned by the Parent without the prior written consent of Dutchco, the Trustee and the Corporation and the approval of the holders of the Exchangeable Shares in accordance with section 10.2 of the Exchangeable Share Provisions and the Class E and F Shareholders other than the Parent, its subsidiaries and Affiliates.

15.10 Language. The parties have agreed that this Agreement be drafted in English. Les parties ont convenu que cette convention soit redigee en langue anglaise.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

Autodesk, Inc.

By /s/ Carol A. Bartz

Carol A. Bartz
Chief Executive Officer

Autodesk Development B.V.

By /s/ Michael E. Sutton

Michael E. Sutton
Directeur

Discreet Logic Inc.

By /s/ Marcia K. Sterling

Marcia K. Sterling
Secretary

Montreal Trust Company of Canada

By /s/ Daniel E. Marz

Daniel E. Marz
Senior Corporate Trust Officer

EXHIBIT 10.12

SUPPORT AGREEMENT

MEMORANDUM OF AGREEMENT made as of the 16 day of March, 1999

BETWEEN:

AUTODESK, INC.,
a corporation subsisting under the laws
of the State of Delaware,

(hereinafter referred to as the "Parent"),

--and--

AUTODESK DEVELOPMENT B.V.,
a corporation subsisting under the laws
of The Netherlands,

(hereinafter referred to as "Dutchco"),

--and--

DISCREET LOGIC INC.,
a corporation subsisting under the laws
of the Province of Quebec,

(hereinafter referred to as the "Corporation").

WHEREAS pursuant to the Second Amended and Restated Agreement and Plan of Acquisition and Amalgamation dated as of November 18, 1998, as amended, by and among the Parent, Dutchco, 9066-9771 Quebec Inc. ("Amalgamation Sub"), Autodesk Canada Inc. ("ACI") 9066-9854 Quebec Inc. ("Autodesk Quebec") and Discreet Logic Inc. (a predecessor to the Corporation) (such agreement being hereinafter referred to as the "Combination Agreement"), the parties agreed that immediately after the Effective Time (as such term is defined in the Combination Agreement), the Parent, Dutchco and the Corporation would execute and deliver a Support Agreement containing the terms and conditions set forth in Exhibit C to the Combination Agreement, together with such other terms and conditions as may be agreed to by the parties to the Combination Agreement acting reasonably;

AND WHEREAS pursuant to the Combination Agreement, articles of amalgamation dated March 16, 1999 (the "Articles of Amalgamation") were filed pursuant to the Companies Act (Quebec) whereby Discreet Logic Inc., Autodesk Quebec and Amalgamation Sub amalgamated to continue as the Corporation;

AND WHEREAS immediately following to the Amalgamation, holders of certain issued and outstanding Class B non-voting common share of the Corporation (the "Class B Shares") elected to retract such shares in exchange for Exchangeable Non-Voting Shares of the Corporation (the "Exchangeable Shares") on the basis of 0.33 of an Exchangeable Share for each Class B Share so retracted;

AND WHEREAS the Articles of Amalgamation set forth the rights, privileges, restrictions and conditions (collectively, the "Exchangeable Share Provisions") attaching to the Exchangeable Shares;

AND WHEREAS pursuant to the Transactions (as defined in the Combination Agreement), Dutchco, an indirect wholly owned subsidiary of the Parent, is the registered and beneficial owner of all of the issued and outstanding Class A Shares of the Corporation and all of the issued and outstanding Class E Shares and Class F Shares of the Corporation, and ACI, a wholly owned subsidiary of the Parent, is the registered and beneficial owner of all of the issued and outstanding Class C Shares of the Corporation, and   is the registered owner of all of the issued and outstanding Class D Shares of the Corporation;

AND WHEREAS the parties hereto desire to make appropriate provision and to establish a procedure whereby the Parent and Dutchco will take certain actions and make certain payments and deliveries necessary to ensure that the Corporation will be able to make certain payments and to deliver or cause to be delivered, Parent Common Shares in satisfaction of the obligations of the Corporation under the Exchangeable Share Provisions with respect to the payment and satisfaction of Liquidation Amounts, Retraction Prices and Redemption Prices, all in accordance with the Exchangeable Share Provisions;

NOW THEREFORE in consideration of the respective covenants and agreements provided in this agreement and for other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties agree as follows:

ARTICLE 1

Definitions and Interpretation

1.1 Defined Terms. Each term denoted herein by initial capital letters and not otherwise defined herein shall have the meaning ascribed thereto in the Exchangeable Share Provisions, unless the context requires otherwise.

1.2 Interpretation not Affected by Headings, etc. The division of this agreement into articles, sections and paragraphs and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this agreement.

1.3 Number, Gender, etc. Words importing the singular number only shall include the plural and vice versa. Words importing the use of any gender shall include all genders.

1.4 Date for any Action. In the event that any date on or by which any action is required or permitted to be taken under this agreement is not a Business Day, such action shall be required or permitted to be taken on or by the next succeeding Business Day. For the purposes of this agreement, a "Business Day" means any day other than a Saturday, Sunday or a day when banks are not open for business in either or both of San Francisco, California or Montreal, Quebec.

ARTICLE 2

Covenants of the Parent, Dutchco and the Corporation

2.1 Funding of the Corporation. So long as any Exchangeable Shares are outstanding, the Parent (and Dutchco in the case of subclauses (b), (e) and (f)) will:

(a) not declare or pay any dividend on the Parent Common Shares unless (i) the Corporation will have sufficient assets, funds and other property available to enable the due declaration and the due and punctual payment in accordance with applicable law, of an equivalent dividend on the Exchangeable Shares and (ii) the Corporation shall simultaneously declare or pay, as the case may be, an equivalent dividend on the Exchangeable Shares, in each case in accordance with the Exchangeable Share Provisions;

(b) cause the Corporation to declare simultaneously with the declaration of any dividend on the Parent Common Shares an equivalent dividend on the Exchangeable Shares and, when such dividend is paid on the Parent Common Shares, cause the Corporation to pay simultaneously therewith such equivalent dividend on the Exchangeable Shares, in each case in accordance with the Exchangeable Share Provisions;

(c) advise the Corporation sufficiently in advance of the declaration by the Parent of any dividend on the Parent Common Shares and take all such other actions as are necessary, in cooperation with the Corporation, to ensure that the respective declaration date, record date and payment date for a dividend on the Exchangeable Shares shall be the same as the record date, declaration date and payment date for the corresponding dividend on the Parent Common Shares and shall correspond with any required dating for any stock exchange purpose on which the Exchangeable Shares are listed;

(d) ensure that the record date for any dividend declared on the Parent Common Shares is not less than 10 Business Days after the declaration date for such dividend;

(e) take all such actions and do all such things as are necessary or desirable to enable and permit the Corporation, in accordance with applicable law, to pay and otherwise perform its obligations with respect to the satisfaction of the Liquidation Amount in respect of each issued and outstanding Exchangeable Share upon the liquidation, dissolution or winding-up of the Corporation, including without limitation all such actions and all such things as are necessary or desirable to enable and permit the Corporation to cause to be delivered Parent Common Shares to the holders of Exchangeable Shares in accordance with the provisions of Article 5 of the Exchangeable Share Provisions; and

(f) take all such actions and do all such things as are necessary or desirable to enable and permit the Corporation, in accordance with applicable law, to pay and otherwise perform its obligations with respect to the satisfaction of the Retraction Price and the Redemption Price, including without limitation all such actions and all such things as are necessary or desirable to enable and permit the Corporation to cause to be delivered Parent Common Shares to the holders of Exchangeable Shares, upon the redemption of the Exchangeable Shares in accordance with the provisions of Article 6 or Article 7 of the Exchangeable Share Provisions, as the case may be.

2.2 Segregation of Funds. The Parent will and if applicable will cause the Corporation to deposit a sufficient amount of funds in a separate account and segregate a sufficient amount of such assets and other property as is necessary to enable the Corporation to pay or otherwise satisfy the applicable Liquidation Amount, Retraction Price or Redemption Price, in each case for the benefit of holders from time to time of the Exchangeable Shares, and will use such funds, assets and other property so segregated exclusively for the payment or other satisfaction of the Liquidation Amount, the Retraction Price or the Redemption Price, as applicable.

2.3 Reservation of Parent Common Shares. The Parent hereby represents, warrants and covenants that it has irrevocably reserved for issuance and will at all times keep available, free from pre-emptive and other rights, out of its authorized and unissued capital stock such number of Parent Common Shares (or other shares or securities into which the Parent Common Shares may be reclassified or changed as contemplated by section 2.7 hereof) (a) as is equal to the sum of (i) the number of Exchangeable Shares issued and outstanding from time to time and (ii) the number of Exchangeable Shares issuable upon the exercise of all rights to acquire Exchangeable Shares outstanding from time to time and (b) as are now and may hereafter be required to enable and permit the Corporation to meet its obligations hereunder, under the Voting and Exchange Trust Agreement, under the Exchangeable Share Provisions and under any other security or commitment pursuant to which the Parent may now or hereafter be required to issue Parent Common Shares.

2.4 Notification of Certain Events. In order to assist the Parent and Dutchco to comply with their obligations hereunder, the Corporation will give the Parent and Dutchco notice of each of the following events at the time set forth below:

(a) in the event of any determination by the Board of Directors of the Corporation to institute voluntary liquidation, dissolution or winding up proceedings with respect to the Corporation or to effect any other distribution of the assets of the Corporation among its shareholders for the purpose of winding up its affairs, at least 60 days prior to the proposed effective date of such liquidation, dissolution, winding up or other distribution;

(b) immediately, upon the earlier of receipt by the Corporation of notice of and the Corporation otherwise becoming aware of any threatened or instituted claim, suit, petition or other proceeding with respect to the involuntary liquidation, dissolution or winding up of the Corporation or to effect any other distribution of the assets of the Corporation among its shareholders for the purpose of winding up its affairs;

(c) immediately, upon receipt by the Corporation of a Retraction Request (as defined in the Exchangeable Share Provisions);

(d) at least 130 days prior to any accelerated Automatic Redemption Date determined by the Board of Directors of the Corporation in accordance with the Exchangeable Share Provisions; and

(e) as soon as practicable upon the issuance by the Corporation of any Exchangeable Shares or rights to acquire Exchangeable Shares (other than the issuance of Exchangeable Shares upon the redemption of outstanding Class B Shares pursuant to the Transactions).

2.5 Delivery of Parent Common Shares. In furtherance of its obligations under sections 2.1(e) and 2.1(f) hereof, upon notice from the Corporation of any event which requires the Corporation to cause to be delivered Parent Common Shares to any holder of Exchangeable Shares, Dutchco shall forthwith deliver the requisite Parent Common Shares to or to the order of the former holder of the surrendered Exchangeable Shares, as the Corporation shall direct. All such Parent Common Shares shall be duly issued as fully paid and non-assessable and shall be free and clear of any lien, claim, encumbrance, security interest or adverse claim. In consideration of the delivery of each such Parent Common Share by Dutchco, the Corporation shall issue to Dutchco, or as Dutchco shall direct, such number of Class A Shares of the Corporation as is equal to the fair value of such Parent Common Share.

2.6 Qualification of Parent Common Shares in the United States. The Parent represents and warrants that it has taken all actions and done all things as are necessary or desirable to cause the Parent Common Shares to be issued and delivered pursuant to the Exchangeable Share Provisions, the Exchange Right or the Automatic Exchange Rights (as defined in the Voting and Exchange Trust Agreement) to be freely tradeable thereafter in the United States (other than any restrictions on transfers by reason of a holder being an "affiliate" of the Parent or, prior to the Effective Date, for purposes of United States federal or state securities law). The Parent will in good faith expeditiously take all such actions and do all such things as are necessary or desirable to cause all Parent Common Shares to be delivered pursuant to the Exchangeable Share Provisions, Exchange Right or the Automatic Exchange Rights to be listed, quoted or posted for trading on all stock exchanges and quotation systems on which outstanding Parent Common Shares are listed, quoted or posted for trading at such time.

2.7 Economic Equivalence.

(a) The Parent will not without the prior approval of the Corporation and the prior approval of the holders of the Exchangeable Shares given in accordance with Section 10.2 of the Exchangeable Share Provisions:

(i) issue or distribute Parent Common Shares (or securities exchangeable for or convertible into or carrying rights to acquire Parent Common Shares) to the holders of all or substantially all of the then outstanding Parent Common Shares by way of stock dividend or other distribution, other than an issue of Parent Common Shares (or securities exchangeable for or convertible into or carrying rights to acquire Parent Common Shares) to holders of Parent Common Shares who exercise an option to receive dividends in Parent Common Shares (or securities exchangeable for or convertible into or carrying rights to acquire Parent Common Shares) in lieu of receiving cash dividends; or

(ii) issue or distribute rights, options or warrants to the holders of all or substantially all of the then outstanding Parent Common Shares entitling them to subscribe for or to purchase Parent Common Shares (or securities exchangeable for or convertible into or carrying rights to acquire Parent Common Shares); or

(iii) issue or distribute to the holders of all or substantially all of the then outstanding Parent Common Shares (A) shares or securities of the Parent of any class other than Parent Common Shares (other than shares convertible into or exchangeable for or carrying rights to acquire Parent Common Shares), (B) rights, options or warrants other than those referred to in section 2.7(a)(ii) above, (C) evidences of indebtedness of the Parent or (D) assets of the Parent;

unless (i) the Corporation is able under applicable law to issue or distribute the economic equivalent on a per share basis of such rights, options, securities, shares, evidences of indebtedness or other assets simultaneously to holders of the Exchangeable Shares, and (ii) the Corporation shall issue or distribute such rights, options, securities, shares, evidences of indebtedness or other assets simultaneously to holders of the Exchangeable Shares.

(b) The Parent will not without the prior approval of the Corporation and the prior approval of the holders of the Exchangeable Shares given in accordance with Section 10.2 of the Exchangeable Share Provisions:

(i) subdivide, redivide or change the then outstanding Parent Common Shares into a greater number of Parent Common Shares; or

(ii) reduce, combine or consolidate or change the then outstanding Parent Common Shares into a lesser number of Parent Common Shares; or

(iii) reclassify or otherwise change the Parent Common Shares or effect an amalgamation, merger, reorganization or other transaction affecting the Parent Common Shares;

unless (i) the Corporation is able under applicable law to simultaneously make the same or an economically equivalent change to, or in the rights of the holders of, the Exchangeable Shares, and (ii) the Corporation simultaneously does make the same or an economically equivalent change to, or in the rights of the holders of, the Exchangeable Shares.

(c) The Parent will ensure that the record date for any event referred to in section 2.7(a) or 2.7(b) above, or (if no record date is applicable for such event) the effective date for any such event, is not less than 20 Business Days (or such shorter period as the Parent and the Corporation may agree upon) after the date on which such event is declared or announced by the Parent (with simultaneous notice thereof to be given by the Parent to the Corporation).

(d) The Board of Directors of the Corporation shall determine, in good faith and in its sole discretion (with the assistance of such reputable and qualified independent financial advisors and/or other experts as the board may require), economic equivalence for the purposes of any event referred to in Section 2.7(a) or 2.7(b) above and each such determination shall be conclusive and binding on Dutchco and the Parent. In making each such determination, the following factors shall, without excluding other factors determined by the Board of Directors of the Corporation to be relevant, be considered by the Board of Directors of the Corporation:

(i) in the case of any stock dividend or other distribution payable in Parent Common Shares, the number of such shares issued in proportion to the number of Parent Common Shares previously outstanding;

(ii) in the case of the issuance or distribution of any rights, options or warrants to subscribe for or purchase Parent Common Shares (or securities exchangeable for or convertible into or carrying rights to acquire Parent Common Shares), the relationship between the exercise price of each such right, option or warrant and the current market value (as determined by the Board of Directors of the Corporation in the manner above contemplated) of a Parent Common Share;

(iii) in the case of the issuance or distribution of any other form of property (including without limitation any shares or securities of the Parent of any class other than Parent Common Shares, any rights, options or warrants other than those referred to in Section 2.7(d)(ii) above, any evidences of indebtedness of the Parent or any assets of the Parent), the relationship between the fair market value (as determined by the Board of Directors of the Corporation in the manner above contemplated) of such property to be issued or distributed with respect to each outstanding Parent Common Share and the current market value (as determined by the Board of Directors of the Corporation in the manner above contemplated) of a Parent Common Share;

(iv) in the case of any subdivision, redivision or change of the then outstanding Parent Common Shares into a greater number of Parent Common Shares or the reduction, combination or consolidation or change of the then outstanding Parent Common Shares into a lesser number of Parent Common Shares or any amalgamation, merger, reorganization or other transaction affecting the Parent Common Shares, the effect thereof upon the then outstanding Parent Common Shares; and

(v) in all such cases, the general taxation consequences of the relevant event to holders of Exchangeable Shares to the extent that such consequences may differ from the taxation consequences to holders of Parent Common Shares as a result of differences between taxation laws of Canada and the United States (except for any differing consequences arising as a result of differing marginal taxation rates and without regard to the individual circumstances of holders of Exchangeable Shares).

For purposes of the foregoing determinations, the current market value of any security listed and traded or quoted on a securities exchange or automated quotation system shall be the average of the closing prices of such security during the three consecutive trading days ending not more than five trading days before the date of determination on the principal securities exchange on which such securities are listed and traded or quoted; provided, however, that if there is no active public distribution or trading activity of such securities during such period, then the current market value thereof shall be determined by the Board of Directors of the Corporation, in good faith and in its sole discretion (with the assistance of such reputable and qualified independent financial advisors and/or other experts as the board may require), and provided further that any such determination by the Board of Directors of the Corporation shall be conclusive and binding on the Parent.

2.8 Tender Offers, Etc. In the event that a tender offer, share exchange offer, issuer bid, take-over bid or similar transaction with respect to Parent Common Shares (an "Offer") is proposed by the Parent or is proposed to the Parent or its shareholders and is recommended by the Board of Directors of the Parent, or is otherwise effected or to be effected with the consent or approval of the Board of Directors of the Parent, the Parent will use its best efforts expeditiously and in good faith to take all such actions and do all such things as are necessary or desirable to enable and permit holders of Exchangeable Shares to participate in such Offer to the same extent and on an economically equivalent basis as the holders of Parent Common Shares, without discrimination. Without limiting the generality of the foregoing, the Parent will use its best efforts expeditiously and in good faith to ensure that holders of Exchangeable Shares may participate in all such Offers without being required to retract Exchangeable Shares as against the Corporation (or, if so required, to ensure that any such retraction shall be effective only upon, and shall be conditional upon, the closing of the Offer and only to the extent necessary to tender or deposit to the Offer).

2.9 Ownership of Outstanding Shares. Without the prior approval of the Corporation and the prior approval of the holders of the Exchangeable Shares given in accordance with Section 10.2 of the Exchangeable Share Provisions, the Parent covenants and agrees in favour of the Corporation that, as long as any outstanding Exchangeable Shares are owned by any person or entity other than the Parent or any of its Affiliates, Parent will be and remain the direct or indirect beneficial owner of all issued and outstanding shares in the capital of the Corporation other than the Class D Shares and all outstanding securities of the Corporation, in each case carrying or otherwise entitled to voting rights in any circumstances, and in each case other than the Exchangeable Shares or the Class D Shares.

2.10 Parent Not To Vote Exchangeable Shares. The Parent covenants and agrees that it will appoint and cause to be appointed proxyholders with respect to all Exchangeable Shares held by the Parent and its subsidiaries and Affiliates for the sole purpose of attending each meeting of holders of Exchangeable Shares in order to be counted as part of the quorum for each such meeting. The Parent further covenants and agrees that it will not, and will cause its subsidiaries and Affiliates not to, exercise any voting rights which may be exercisable by holders of Exchangeable Shares from time to time pursuant to the Exchangeable Share Provisions or pursuant to the provisions of the Companies Act (Quebec) (or any successor or other corporate statute by which the Corporation in the future shall be governed) with respect to any Exchangeable Shares held by it or by its subsidiaries or Affiliates in respect of any matter considered at any meeting of holders of Exchangeable Shares.

2.11 Due Performance. On and after the Effective Time, Parent and Dutchco shall duly and timely perform all of their respective obligations expressed in the Combination Agreement.

2.12 Preservation of Existence of Corporation. Without the prior approval of the holders of Exchangeable Shares given in accordance with Section 10.2 of the Exchangeable Shares Provisions, the Parent, Dutchco and Corporation covenant and agree that, so long as any Exchangeable Shares are owned by any person or entity other than the Parent or its Affiliates, the separate existence of Corporation shall be preserved and Corporation shall not be liquidated, wound up or dissolved or merged with or into another entity.

2.13 Certain Requirements in Respect of Combination, etc. The Parent shall not enter into any transaction (whether by way of reconstruction, reorganization, consolidation, merger, transfer, sale, lease or otherwise) whereby all or substantially all of its undertaking, property and assets would become the property of any other person or, in the case of a merger, of the continuing corporation resulting therefrom unless:

(a) such other person or continuing corporation is a corporation (herein called the "Parent Successor") incorporated under the laws of any state of the United States or the laws of Canada or any province thereof;

(b) the Parent Successor, by operation of law, becomes, without more, bound by the terms and provisions of this trust agreement or, if not so bound, executes, prior to or contemporaneously with the consummation of such transaction a trust agreement supplemental hereto and such other instruments (if any) as are satisfactory to the Trustee and in the opinion of legal counsel to the Trustee are necessary or advisable to evidence the assumption by the Parent Successor of liability for all moneys payable and property deliverable hereunder and the covenant of such Parent Successor to pay and deliver or cause to be delivered the same and its agreement to observe and perform all the covenants and obligations of the Parent under this trust agreement; and

(c) such transaction shall, to the satisfaction of the Trustee and in the opinion of legal counsel to the Trustee, be upon such terms as substantially to preserve and not to impair in any material respect any of the rights, duties, powers and authorities of the Trustee or of the Beneficiaries hereunder.

ARTICLE 3

General

3.1 Term. This agreement shall come into force and be effective upon the issue by the Corporation of Exchangeable Shares and shall terminate and be of no further force and effect at such time as no Exchangeable Shares (or securities or rights convertible into or exchangeable for or carrying rights to acquire Exchangeable Shares) are held by any party other than the Parent and any of its Affiliates.

3.2 Changes in Capital of Parent and the Corporation. Notwithstanding the provisions of Section 3.4, at all times after the occurrence of any event effected pursuant to Section 2.7 or 2.8 hereof, as a result of which either the Parent Common Shares or the Exchangeable Shares or both are in any way changed, this agreement shall forthwith be amended and modified as necessary in order that it shall apply with full force and effect, mutatis mutandis, to all new securities into which the Parent Common Shares or the Exchangeable Shares or both are so changed and the parties hereto shall execute and deliver an agreement in writing giving effect to and evidencing such necessary amendments and modifications.

3.3 Severability. If any provision of this agreement is held invalid, illegal or unenforceable, the validity, legality or enforceability of the remainder of this agreement shall not in any way be affected or improved thereby and this agreement shall be carried and as near as possible in accordance with its original terms and conditions; and to this end the provisions of this agreement are intended to be and shall be deemed severable; provided, however, that if the provision or provisions so held to be invalid, in the reasonable judgment of the parties hereto, is or are so fundamental to the intent of the parties hereto and the operation of this agreement that the enforcement of the other provisions hereof, in the absence of such invalid provision or provisions, would damage irreparably the intent of the parties in entering into this agreement, the parties hereto shall agree to amend or otherwise modify this agreement so as to carry out the intent and purposes hereof and the transactions contemplated hereby.

3.4 Amendments, Modifications, etc. Except as contemplated by Section 3.5, this agreement may not be amended or modified except by an agreement in writing executed by the Corporation, Dutchco and the Parent and approved by the holders of the Exchangeable Shares in accordance with Section 10.2 of the Exchangeable Share Provisions.

3.5 Ministerial Amendments. Notwithstanding the provisions of Section 3.4, the parties to this agreement may in writing, at any time and from time to time, without the approval of the holders of the Exchangeable Shares, amend or modify this agreement for the purposes of:

(a) adding to the covenants of any of the parties for the protection of the holders of the Exchangeable Shares;

(b) making such amendments or modifications not inconsistent with this agreement as may be necessary or desirable with respect to matters or questions which, in the opinion of the Boards of Directors of each of the Corporation, Dutchco and the Parent, it may be expedient to make, provided that each such Board of Directors shall be of the opinion that such amendments or modifications will not be prejudicial to the interests of the holders of the Exchangeable Shares; or

(c) making such changes or corrections which, on the advice of counsel to the Corporation, Dutchco and the Parent, are required for the purpose of curing or correcting any ambiguity or defect or inconsistent provision or clerical omission or mistake or manifest error, provided that the Boards of Directors of each of the Corporation, Dutchco and the Parent shall be of the opinion that such changes or corrections will not be prejudicial to the interests of the holders of the Exchangeable Shares.

3.6 Meeting to Consider Amendments. The Corporation, at the request of the Parent or Dutchco, shall call a meeting or meetings of the holders of the Exchangeable Shares for the purpose of considering any proposed amendment or modification requiring approval pursuant to Section 3.4 hereof. Any such meeting or meetings shall be called and held in accordance with the by-laws of the Corporation, the Exchangeable Share Provisions and all applicable laws.

3.7 Amendments Only in Writing. No amendment to or modification or waiver of any of the provisions of this agreement otherwise permitted hereunder shall be effective unless made in writing and signed by all of the parties hereto.

3.8 Enurement. This agreement shall be binding upon and enure to the benefit of the parties hereto and their respective successors and assigns.

3.9 Notices to Parties. All notices and other communications between the parties shall be in writing and shall be deemed to have been given if delivered personally or by confirmed telecopy to the parties at the following addresses (or at such other address for either such party as shall be specified in like notice):

(a) if to the Parent or Dutchco at:

Autodesk, Inc.
20400 Stevens Creek Boulevard
Cupertino, CA 95401-2217
Attention: Marcia K. Sterling
Vice President Business Development, General Counsel and Secretary
Telecopy:
(408) 517-1886

(b) if to the Corporation at:

Discreet Logic Inc.
10 Duke Street
Montreal, Quebec
Canada H3C 2L7
Attention: Francois Plamondon
Senior Vice President, Chief Financial Officer, Treasurer and Secretary
Telecopy:
(514) 393-3996

Any notice or other communication given personally shall be deemed to have been given and received upon delivery thereof and if given by telecopy shall be deemed to have been given and received on the date of confirmed receipt thereof, provided such notice or other communication is received prior to 5:00 p.m. (local time) on a Business Day, and otherwise it shall be deemed to have been given and received upon the immediately following Business Day.

3.10 Counterparts. This agreement may be executed in counterparts, each of which shall be deemed an original, and all of which taken together shall constitute one and the same instrument.

3.11 Jurisdiction. This agreement shall be construed and enforced in accordance with the laws of the Province of Quebec and the laws of Canada applicable therein.

3.12 Attornment. The Parent, Dutchco and the Corporation agree that any action or proceeding arising out of or relating to this agreement may be instituted in the courts of Quebec, waive any objection which they may have now or hereafter to the venue of any such action or proceeding, irrevocably submits to the non-exclusive jurisdiction of the said courts in any such action or proceeding, agree to be bound by any judgment of the said courts and not to seek, and hereby waive, any review of the merits of any such judgment by the courts of any other jurisdiction and the Parent and Dutchco hereby appoint the Corporation at its registered office in the Province of Quebec as the Parent's and Dutchco's attorney for service of process.

3.13 Guaranty/Assignment. Parent hereby unconditionally and irrevocably guarantees the prompt and full performance by Dutchco of, and shall cause Dutchco to comply with, its obligations hereunder and pursuant to the Transactions. Dutchco may assign all or a portion of its rights and obligations hereunder to Parent or any Affiliate of Parent, which shall thereupon assume such assigned rights and/or obligations without the consent of the Corporation subject to the Corporation and Parent or such Affiliate, as the case may be, entering into a supplemental agreement reflecting such assignment and assumption. This agreement may not be assigned by the Parent without the prior written consent of Dutchco and the Corporation approved by the holders of the Exchangeable Shares in accordance with Section 10.2 of the Exchangeable Share Provisions.

3.14 Language. The parties have agreed that this agreement be drafted in English. Les parties ont convenu que cette convention soit redigee en langue anglaise.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be duly executed as of the date first above written.

Autodesk, Inc.

By: /s/ Carol A. Bartz

Carol A. Bartz
Chief Executive Officer

Autodesk Development B.V.

By: /s/ Michael E. Sutton

Michael E. Sutton
Directeur

Discreet Logic Inc.

By: /s/ Marcia K. Sterling

Marcia K. Sterling
Secretary

FINANCIAL

REVIEW

SELECTED FIVE-YEAR FINANCIAL DATA

(In thousands, except per share data, percentages, and employees)	Fiscal year ended January 31,				
For the Fiscal Year/1/	1999	1998 (restated)	1997	1996	1995
Net revenues	$ 740,167	$ 617,126	$ 496,693	$ 534,167	$ 454,612
Cost of revenues	76,364	71,338	64,217	66,812	61,725
Marketing and sales	260,553	237,107	199,939	183,550	154,562
Research and development	142,806	122,432	93,702	78,678	65,176
General and administrative	123,622	88,900	74,280	76,100	65,738
Nonrecurring charges/2/	21,985	22,187	4,738	--	25,500
Litigation accrual reversal	(18,200)	--	--	--	--
Income from operations/2/	133,037	75,162	59,817	129,027	81,911
Interest and other income, net	13,523	9,644	6,695	9,253	7,233
Income before income taxes	146,560	84,806	66,512	138,280	89,144
Net income/2/	90,639	45,171	41,571	87,788	56,606
Net cash provided by operating activities	146,735	158,612	114,183	106,632	104,412
At Year End/1/					
Cash, cash equivalents, and marketable securities	$ 378,195	$ 301,319	$ 286,308	$ 272,402	$ 255,373
Current assets	450,489	307,702	297,671	335,013	360,725
Total assets	693,877	563,490	492,233	517,929	482,076
Current liabilities	231,599	199,487	150,171	144,295	154,990
Long-term liabilities	2,036	31,064	33,948	31,306	3,602
Total liabilities	233,635	230,551	184,119	175,601	158,592
Stockholders' equity	460,242	332,939	243,614	342,328	323,484
Working capital	218,890	108,215	147,500	190,718	205,735
Number of employees	2,712	2,470	2,044	1,894	1,788
Common Stock Data/1/					
Basic net income per share/2/	$ 1.94	$ 0.97	$ 0.91	$ 1.86	$ 1.20
Diluted net income per share/2/	$ 1.85	$ 0.91	$ 0.88	$ 1.76	$ 1.14
Book value per share	$ 9.72	$ 7.32	$ 5.40	$ 7.39	$ 6.85
Dividends paid per share	$ 0.24	$ 0.24	$ 0.24	$ 0.24	$ 0.24
Shares used in computing basic net income per share	46,640	46,760	45,540	47,090	47,320
Shares used in computing diluted net income per share	48,910	49,860	47,190	49,800	49,840
Shares outstanding at year end	47,342	45,465	45,108	46,351	47,241
Financial Ratios/1/					
Current ratio	1.9	1.5	2.0	2.3	2.3
Return on net revenues/2/	12%	7%	8%	16%	12%
Return on average assets/2/	14%	9%	8%	18%	13%
Return on average stockholders' equity/2/	23%	16%	14%	26%	18%

/1/ Amounts do not include the operating results or financial position of Discreet Logic Inc., which was acquired by Autodesk on March 16, 1999. (See Note 12 to the consolidated financial statements.)

/2/ Amounts include the effects of nonrecurring charges of $22.0 million, $22.2 million, $4.7 million, and $25.5 million recorded in fiscal years 1999, 1998, 1997, and 1995, respectively. Nonrecurring charges consist of charges for purchased in-process research and development from business acquisitions in fiscal years 1999, 1998, and 1997. The fiscal year 1995 amount represents a legal judgment against the Company.

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 herein relative to markets for Autodesk's products and trends in revenues, 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 elsewhere herein, including "Certain Risk Factors Which May Impact Future Operating Results."

RECENT EVENTS

In March 1999, Autodesk acquired Discreet Logic Inc., a company that develops, assembles, markets, and supports nonlinear, online digital systems and software for creating, editing, and compositing imagery and special effects for film, video, HDTV, broadcast, and the Web, in a transaction accounted for as a pooling of interests. In the acquisition, Autodesk acquired all of Discreet's voting stock, issuing 0.33 shares of Autodesk common stock or 0.33 exchangeable shares for each outstanding share of Discreet. Autodesk issued approximately 10 million shares of its stock, or exchangeable shares, in the acquisition. Each exchangeable share can be exchanged, at its holder's election, for Autodesk common stock.

RESULTS OF OPERATIONS

The following table sets forth, as a percentage of net revenues, consolidated statement of income data for the periods indicated. These operating results are not necessarily indicative of results for any future periods.

	Fiscal year ended January 31,		
	1999	1998 (restated)	1997
Net revenues	100%	100%	100%
Costs and expenses:			
Cost of revenues	10	12	13
Marketing and sales	35	38	40
Research and development	19	20	19
General and administrative	17	14	15
Nonrecurring charges	3	4	1
Litigation accrual reversal	(2)	--	--
Total costs and expenses	82	88	88
Income from operations	18	12	12
Interest and other income, net	2	1	1
Income before income taxes	20	13	13
Provision for income taxes	8	6	5
Net income	12%	7%	8%

Net revenues

Autodesk's consolidated net revenues in fiscal year 1999 were $740.2 million, which represented a 20 percent increase from fiscal year 1998 net revenues of $617.1 million. Revenues in the Americas and Europe increased $58.7 million or 20 percent and $78.9 million or 38 percent, respectively, from the prior fiscal year, while net revenues in Asia Pacific decreased slightly for the same period. The increased revenues resulted primarily from increased license revenues from new and upgrade product offerings from the Company's market groups and to a lesser extent from recent acquisitions. Net revenues in fiscal year 1998 increased 24 percent from the $496.7 million posted in fiscal year 1997, primarily due to higher sales of AutoCAD(R) software, the Company's flagship product, and significant growth in the Company's market group revenues. Also contributing to the increased revenues in fiscal year 1998 were revenues contributed by Softdesk, Inc. ("Softdesk"), which was acquired by the Company in March 1997.

AutoCAD and AutoCAD upgrades represented approximately 62 percent, 70 percent, and 70 percent of consolidated revenues in fiscal years 1999, 1998, and 1997, respectively. On a stand-alone basis, AutoCAD and AutoCAD upgrades were 51 percent, 65 percent, and 68 percent of consolidated revenues in fiscal years 1999, 1998, and 1997, respectively. During fiscal year 1999, approximately 263,000 new AutoCAD licenses were added worldwide, compared to 244,000 and 207,000 licenses added during fiscal years 1998 and 1997, respectively. AutoCAD upgrade revenues were $112 million, $108 million, and $45 million in fiscal years 1999, 1998, and 1997, respectively. On a stand-alone basis, AutoCAD upgrade revenues were $99 million, $101 million, and $44 million, respectively.

International revenues, including exports from the United States, accounted for approximately 60 percent, 59 percent, and 67 percent of consolidated revenues in fiscal years 1999, 1998, and 1997, respectively. The stronger value of the U.S. dollar, relative to international currencies, primarily the Japanese yen and the Australian dollar, negatively affected international revenues by approximately $4 million in fiscal year 1999 as compared to fiscal year 1998 and by $30 million in fiscal year 1998 as compared to fiscal year 1997. Fluctuations in foreign exchange rates positively impacted international operating expenses by $3 million in fiscal year 1999, positively impacted international operating expenses by $11 million in fiscal year 1998, and did not materially impact operating expenses in fiscal year 1997. A summary of revenues by geographic area is presented in Note 8 to the consolidated financial statements.

The Company records product returns as a reduction of revenues. In fiscal years 1999, 1998, and 1997, product returns, consisting principally of stock rotation, totaled $30.9 million, $35.4 million, and $44.3 million (or 4 percent, 6 percent, and 9 percent of total consolidated revenues, respectively). Total product returns decreased $4.5 million in fiscal year 1999 due largely to continued management focus on the level of inventories with the Company's resellers, sell-through sales activities and programs in Autodesk's distribution channel, and fewer returns associated with AutoCAD Release 14 compared to the prior version. Returns of AutoCAD and AutoCAD upgrades accounted for 23 percent, 40 percent, and 61 percent of total product returns in fiscal years 1999, 1998, and 1997, respectively. The lower level of product returns in fiscal year 1999 compared to fiscal years 1998 and 1997 reflected a lower level of product rotation that had previously been associated with performance issues relating to AutoCAD Release 13 and customers' perception issues associated with this product.

The nature and technical complexity of Autodesk's software is such that defect corrections have occurred in the past and may occur in future releases of AutoCAD and other software products offered by the Company. As is the case with most complex software, the Company has experienced performance issues with previous releases of its AutoCAD software, and performance issues could occur in future releases of AutoCAD and other products offered by the Company.

Delays in the introduction of planned future product releases, or failure to achieve significant customer acceptance for these new products, may have a material adverse effect on the Company's revenues and consolidated results of operations in future periods. Additionally, slowdowns in any of the Company's geographical markets, including the recent economic instability in certain countries of the Asia Pacific region, could also have a material adverse effect on Autodesk's business and consolidated results of operations.

Cost of revenues

Cost of revenues includes the purchase of disks and compact disks (CDs), costs associated with transferring the Company's software to electronic media, printing of user manuals and packaging materials, freight, royalties, amortization of purchased technology and capitalized software, facility costs, and in certain foreign markets, software protection locks. When expressed as a percentage of net revenues, cost of revenues decreased approximately 2 percent in fiscal year 1999 as compared to fiscal year 1998 and 1 percent in fiscal year 1998 as compared to fiscal year 1997. Gross margins in fiscal year 1999 were positively impacted by continued operating efficiencies, lower royalties for licensed technology embedded in Autodesk's products, and the geographic distribution of sales, partially offset by an increase in the amortization of purchased technologies and capitalized software. In the future, cost of revenues as a percentage of net revenues may be impacted by the mix of product sales, royalty rates for licensed technology embedded in Autodesk's products, and the geographic distribution of sales.

Marketing and sales

Marketing and sales expenses include salaries, sales commissions, travel, and facility costs for the Company's marketing, sales, dealer training, and support personnel. These expenses also include programs aimed at increasing revenues, such as advertising, trade shows, and expositions, as well as various sales and promotional programs designed for specific sales channels and end users. When expressed as a percentage of net revenues, marketing and sales expenses decreased from 38 percent in fiscal year 1998 to 35 percent in fiscal year 1999. Actual fiscal year 1999 marketing and sales expenses of $260.6 million increased by 10 percent from the $237.1 million of expense incurred in the prior fiscal year. The increase in spending was largely due to higher employee costs and increases in advertising and promotional costs associated with the launch of certain new and enhanced products introduced by the Company's market groups during fiscal year 1999. Fiscal year 1998 marketing and sales expenses increased 19 percent over fiscal year 1997 expenses of $199.9 million due to higher employee costs as well as marketing and sales costs associated with the launch of AutoCAD Release 14 and other new and enhanced products released throughout the year. The Company expects to continue to invest in marketing and sales of its products, to develop market opportunities, and to promote Autodesk's competitive position. Accordingly, the Company expects marketing and sales expenses to continue to be significant, both in absolute dollars and as a percentage of net revenues.

Research and development

Research and development expenses consist primarily of salaries and benefits for software engineers, contract development fees, expenses associated with product translations, costs of computer equipment used in software development, and facilities expenses. During fiscal years 1999, 1998, and 1997, Autodesk incurred $142.8 million, $122.4 million, and $93.7 million, respectively, of research and development expenses (excluding capitalized software development costs of $1.3 million and $2.2 million during fiscal years 1999 and 1998, respectively; no software development costs were capitalized during fiscal year 1997). Research and development expenses increased in fiscal year 1999 primarily due to higher employee-related costs ($15.1 million increase) and incremental research and development expenses associated with the May 1998 acquisition of Genius CAD Software GmbH ("Genius") ($4.7 million increase). The increase in research and development expenses between fiscal years 1998 and 1997 was due to the addition of software engineers and incremental research and development personnel expenses associated with the March 1997 business combination with Softdesk. The Company anticipates that research and development expenses will increase in fiscal year 2000 as a result of product development efforts by the Com-pany's market groups and incremental personnel costs. Additionally, the Company intends to continue recruiting and hiring experienced software developers and to consider the licensing and acquisition of complementary software technologies and businesses.

General and administrative

General and administrative expenses include the Company's information systems, finance, human resources, legal, and other administrative operations. Fiscal year 1999 general and administrative expenses of $123.6 million increased 39 percent from the $88.9 million recorded in the prior fiscal year, primarily due to higher employee-related costs ($12 million increase), amortization expense associated with intangible assets recorded in connection with the acquisitions of Genius and Softdesk ($6.7 million increase), costs incurred to ensure that the Company's infrastructure is year 2000 compliant ($3.5 million increase), and consulting fees related to enhancing the information systems infrastructure ($5.0 million increase). Fiscal year 1998 general and administrative expenses increased 20 percent from fiscal year 1997 spending of $74.3 million, primarily due to higher employee-related costs and amortization expense associated with the intangible assets recorded in connection with the acquisition of Softdesk. The Company currently expects that general and administrative expenses in the coming year will increase to support spending on infrastructure, including continued investment in Autodesk's worldwide information systems.

Nonrecurring charges

Genius CAD Software GmbH

On May 4, 1998, Autodesk entered into an agreement with Genius, a German limited liability company, to purchase various mechanical computer-aided-design ("CAD") software applications and technologies (the "acquisition"). In consideration for this acquisition, Autodesk paid Genius approximately $69 million in cash. The acquisition has been accounted for using the purchase method of accounting. In connection with the acquisition, the Company recorded a nonrecurring charge for in-process research and development of $13.1 million, all of which was recorded during the three months ended July 31, 1998.

In-process technologies overview. The nature of the efforts required to develop the acquired in-process technology into commercially viable products principally relates to the completion of all planning, designing, and testing activities that are necessary to establish that the product or service can be produced to meet its design requirements, including functions, features, and technical performance requirements.

As of the acquisition date, Genius had initiated the research and development effort related to the product features and functionality that will reside in the next versions of the (i) Genius AutoCAD and AutoCAD LT, (ii) Genius(TM) Desktop, (iii) Genius(TM) Vario, and (iv) Genius Modules product families.

With respect to the acquired in-process technologies, the calculations of value were adjusted to reflect the value creation efforts of Genius prior to the close of the acquisition. At the time of the acquisition, the following were the estimated completion percentages, estimated technology lives, and projected introduction dates:

Genius in-process technologies	Percent completed	Technology life	Introduction dates
Genius AutoCAD Version R15	45%	6 years	mid/late 1999
Genius Desktop Version 3.0	40%	4 years	September 1998
Genius AutoCAD LT 1998	20%	5 years	mid/late 1999
Genius Vario Version R15	20%	3 years	mid/late 1999
Genius Modules Version R15	20%	3 years	mid/late 1999

A brief description of the acquired in-process projects is set forth below.

For Genius AutoCAD and Genius Desktop, the substantial technological improvements under development at the time of the acquisition included modernizing the code and significantly improving the ease of use of the products.

Modernization of the code for Genius AutoCAD and Genius Desktop included a complete replacement of the existing LISP-based code with modern object-oriented code based on Autodesk's ObjectARX(TM) technology. The Company determined through technical due diligence that a substantial portion of the source code in both Genius AutoCAD and Genius Desktop was based on LISP, with remaining code based on ADS. Replacing the LISP and ADS code was anticipated to significantly improve the flexibility (for example, to add additional features) and performance of the products.

It was uncertain, however, whether all of the existing features could be easily converted to ObjectARX code and what impact this conversion would have on any new features currently being developed. Autodesk estimates that this conversion may take several releases to be fully complete. Partially completed conversions for the interim product releases are expected to rely on a combination of source code from LISP and ObjectARX.

Working through an application-programming interface ("API") for the Autodesk products, a significant issue under continual development is the level of functionality and ease of use of the features that require access to the Autodesk product code. As a result of the acquisition, the Company anticipates that a significant level of effort would be required to either expand or remove these APIs to increase the functionality and usability of features, and to improve the interoperability of the products with Autodesk's offerings.

A significant risk factor associated with this development effort is the impact that removal of the API may have on the functionality of a given feature, and the additional development effort required to restore a feature to its current functionality (before any improvements in this functionality can be made). As is the case with development effort associated with modernizing the code, the Company expects that it may take several releases of both of these products to fully achieve this technological milestone. The Company estimated, for purposes of its valuation, that at the date of the Genius acquisition, development projects associated with the next release of Genius AutoCAD and Genius Desktop were approximately 45 percent and 40 percent completed, respectively. Estimated costs to be incurred to reach technological feasibility as of the date of acquisition were less than $800,000 for Genius AutoCAD. The costs incurred to reach technological feasibility for Genius Desktop, which first shipped in September 1998, were approximately $500,000.

For the Genius AutoCAD LT product offering, the most significant technological challenge was the fact that APIs to AutoCAD LT(R) software (the Autodesk product on which Genius(TM) LT runs) did not exist. To develop features for Genius AutoCAD LT, work-arounds through the Windows interface are required. Genius had reverse-engineered the AutoCAD LT product to build the Genius AutoCAD LT software product. This resulted in a product that was extremely fragile and vulnerable to change in AutoCAD LT and Microsoft Windows. Therefore, the product is dependent on both the AutoCAD LT releases and the Microsoft Windows releases. Expanding and improving the features given Genius's limited access to the platform product, AutoCAD LT, was expected, before the acquisition, to result in a substantial development effort. In addition, improving the interoperability of the Genius LT product and AutoCAD LT after the acquisition also posed a significant technological challenge to Autodesk. The Company estimated that the next release of Genius AutoCAD LT, for purposes of its valuation, was approximately 20 percent complete at the date of the acquisition. Estimated costs to be incurred to reach technological feasibility as of the date of acquisition were less than $200,000.

Genius Vario, which runs on top of AutoCAD, was shipping at the date of acquisition in a two-dimensional ("2D") version. At the date of acquisition, a three-dimensional ("3D") version was under development. The 3D version is a significant shift in technology, from handling 2D drawings to 3D models, and the resulting complexity increases are significant. Developing 3D Vario involved developing parametric modeling in three dimensions--an area that has significant new development challenges and is far more speculative than 2D parametric modeling. In addition, the 3D Genius Vario product is intended to provide much more Internet functionality than is currently available. The Company estimated that the next release of Genius Vario and Modules projects were approximately 20 percent complete at the date of the acquisition. Estimated costs to be incurred to reach technological feasibility for the Genius Vario and Modules projects as of the date of acquisition were less than $25,000.

Valuation analysis. The value of the acquired in-process technology was computed using a discounted cash flow analysis on the anticipated income stream of the related product sales. The discounted cash flow analysis was based on management's forecast of future revenues, cost of revenues, and operating expenses related to the products and technologies purchased from Genius which represent the process and expertise employed to develop mechanical design application software designed to work in conjunction with Autodesk's mechanical CAD products. Future revenue estimates were generated from the following product families: (i) Genius AutoCAD, (ii) Genius Desktop, (iii) Genius AutoCAD LT, (iv) Genius Vario, and (v) Genius Modules. Aggregate revenue for Genius products was estimated to be less than $20 million for the period from May 4, 1998, to January 31, 1999. Thereafter, revenue was estimated to increase at rates ranging from 25 to 33 percent for fiscal years 2000 through 2004, stabilizing at 20 percent growth for the remainder of the estimation period. Year-to-year revenue growth estimates were developed based on an expanding market for CAD software products and the ability of Autodesk to maintain its position in the market. The growth rates contained in the first five years of the projections are greater than those historically experienced by Autodesk and are largely a result of the expansion of the Genius products into Autodesk's existing worldwide sales channels, particularly in North America and Asia Pacific, which historically have not contributed significant revenues to Genius.

As stated previously, revenues for developed technology were estimated by management for the remainder of fiscal year 1999 through fiscal year 2004. Management's estimates reflect a gradual decline in revenues from developed technologies after considering historical product life cycles and anticipated product release dates. While revenues derived from both developed and in-process technologies are estimated to decline over the next several fiscal years, overall revenues attributable to the Genius products and technologies are anticipated to grow in absolute dollars and as a percentage of aggregate revenue to reflect the growth of future (yet-to-be-developed) technologies.

Management's analysis also considered anticipated product release dates for Autodesk's mechanical CAD products, as well as release dates for the various acquired Genius products and technologies which are interoperable with Autodesk's mechanical CAD products. The overall technology life was estimated to be approximately three to four years for the Genius Desktop, Genius Vario, and Genius Modules products, and approximately five to six years for all other Genius products and technologies purchased by Autodesk.

Operating expenses used in the valuation analysis of Genius included (i) cost of revenues, (ii) general and administrative expense, (iii) marketing and sales expense, and (iv) research and development expense. In developing future expense estimates, it was estimated that the Genius operations would be merged into Autodesk's operating structure. Selected operating expense assumptions were based on an evaluation of Autodesk's overall business model, specific product results, including both historical and expected direct expense levels (as appropriate), and an assessment of general industry metrics.

Cost of revenues, expressed as a percentage of revenue, for the developed and in-process technologies identified in the valuation was estimated to be 11 percent throughout the estimation period. The Company's cost of goods sold was 13 percent for fiscal 1996 and fiscal 1997, and 12 percent for fiscal 1998.

General and administrative expense, expressed as a percentage of revenue, for the developed and in-process technologies identified in the valuation ranged from 8.5 percent for fiscal year 1999 to 6 percent for fiscal year 2002. Thereafter, general and administrative expenses, expressed as a percentage of revenue for the developed and in-process technologies identified in valuation, were estimated to stabilize at 5 percent of revenue. For the fiscal year ended January 31, 1998, Autodesk's general and administrative expense, excluding depreciation and amortization, was approximately 9 percent.

Marketing and sales expense, expressed as a percentage of revenue, for the developed and in-process technologies identified in the valuation, was estimated to be 25 percent throughout the estimation period, based on the Company's historical experience with similar products.

Research and development ("R&D") expenses consist of the costs associated with activities undertaken to correct errors or keep products updated with current information (also referred to as "maintenance" R&D). Maintenance R&D includes all activities undertaken after a product is available for general release to customers to correct errors or keep the product updated with current information. These activities include routine changes and additions. The maintenance R&D expense was estimated to be 2.5 percent of revenue for the developed and in-process technologies throughout the estimation period.

The effective income tax rate utilized in the analysis of in-process technology was 34 percent for fiscal year 1999 and in the mid-30 percentage range thereafter, which reflects Autodesk's current combined federal and state statutory income tax rate, exclusive of nonrecurring charges and its estimated income tax rate in future years.

The discount rates selected for developed and in-process technology were 15.0 percent and 20.0 percent, respectively. In the selection of the appropriate discount rates, consideration was given to (i) the Company's Weighted Average Cost of Capital ("WACC") (15.0 percent) and (ii) the Company's Weighted Average Return on Assets (15.7 percent) at the date of acquisition. The discount rate utilized for the in-process technology was determined to be higher than Autodesk's WACC due to the fact that the technology had not yet reached technological feasibility as of the date of valuation. In utilizing a discount rate greater than Autodesk's WACC, management has reflected the risk premium associated with achieving the forecasted cash flows associated with these projects.

The fair values of the assets acquired from Genius were allocated between Europe and the rest of the world ("ROW"), which consisted of the United States and Asia Pacific. The allocation of assets among Europe and ROW was based on revenue expected to be generated on Genius products. Based on management's revenue forecast for fiscal years 1998 through 2003, it was determined that 60 percent of Genius products' total sales are expected to be generated in Europe, while the remaining 40 percent of sales are expected to be generated in ROW. Accordingly, the identified intangible assets were allocated 60 percent to Europe and 40 percent to ROW. The results of the allocation of values between Europe- and ROW-based assets are as follows:

(In thousands)	Geographic allocation	
Identified intangible asset	Europe	ROW
Developed technology	$ 7,620	$ 5,080
In-process technology	7,860	5,240
Trademarks, trade names, and other intangible assets	660	440

Comparison to actual results. To date, revenues and operating expenses attributable to in-process technologies associated with the Genius acquisition are consistent with management's projections. Based upon factors currently known, management believes the revenues and operating expenses associated with these in-process technologies will favorably impact Autodesk's consolidated results of operations and financial position. Failure to complete the development of these projects in their entirety, or in a timely manner, could have an adverse impact on Autodesk's operating results, financial condition, and results of operations. Additionally, the value of other intangible assets acquired from Genius may become impaired.

Softdesk

On March 31, 1997, Autodesk issued approximately 2.9 million shares of its common stock for all outstanding shares of Softdesk. Based upon the value of Autodesk stock and options exchanged, the transaction, including transaction costs, was valued at approximately $94 million. In connection with the acquisition, the Company recorded a charge for in-process research and development of $19.2 million, all of which was recorded as a nonrecurring charge in the fiscal quarter ended April 30, 1997.

In-process technologies overview. The nature of the efforts required to develop the acquired in-process technology into commercially viable products principally relates to the completion of all planning, designing, and testing activities that are necessary to establish that the product or service can be produced to meet its design requirements, including functions, features, and technical performance requirements. As of the acquisition date, Softdesk had spent a significant amount of research and development effort related to the reprogramming of all its existing products to a new ARX technology (AutoCAD Runtime Extension) code base. The new ARX technology was expected to provide significant improvement in the orientation of objects in CAD products. As of the acquisition date, Softdesk had completed improvements of ARX technology in various development projects associated within the following technology categories: (i) AutoCAD Architectural/Structural, (ii) AutoCAD Civil, (iii) AutoCAD Imaging, (iv) AutoCAD Maintenance, (v) AutoCAD Productivity, and (vi) AutoCAD Retail.

In accordance with SFAS 86, paragraph 38 ("Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed"), "the cost of software purchased to be integrated with another product or process will be capitalized only if technological feasibility was established for the software component and if all research and development activities for the other components of the product or process were completed at the time of the purchase." Although Autodesk purchased a set of professional products from Softdesk, as described above, these products were built on top of AutoCAD Release 13 and AutoCAD Release 12 software; they did not utilize Autodesk's ObjectARX programming system in any significant way. With this new technology, AutoCAD developers and users could transform ordinary drawing geometry such as lines, arcs, circles, and other entities into "intelligent" custom drawing objects. Com-mercially shipped Softdesk(R) products, as of the valuation date, were limited to working with the native AutoCAD drafting entities and command set--an environment in which real-world objects were represented by geometric entities that could seldom respond directly to user commands. Higher-level entities that represented building elements could be built as groups or collections of geometric entities, but these collections were very rigid and did not exhibit intelligent behavior.

With the relational database and the ObjectARX API in AutoCAD Release 13 software, objects could "know" their form and function. For example, an ObjectARX-based custom door positioned in a wall will not let itself be placed where it cannot open. In other applications, clicking on a fastener or flange, or a land parcel or topo-graphical feature, can access additional design data in that custom object and trigger operations ranging from a simple on-screen notice to the preparation of a com-prehensive spreadsheet. ObjectARX was a significant departure from previous AutoCAD development environments. Programming ObjectARX required a high level of skill in object-oriented programming. Furthermore, development was being done on a new object-oriented development platform which did not have significant prior development built on top.

The first two AEC applications acquired from Softdesk were developed in this new environment. AutoCAD Architectural Desktop(TM) and AutoCAD(R) Land Development Desktop software, both released in the last half of fiscal year 1999, were developed in the ObjectARX environment. The ObjectARX environment provided general mechanisms, but the Softdesk development teams had to adapt these mechanisms specifically for architectural and civil use. A significant amount of effort was undertaken to develop these products in this new environment. The development teams had to draw upon their experience to arrive at object definitions which would function appropriately in their specific markets. In addition, these object definitions had to be general enough that they could be localized to meet the unique needs of the design and construction practices in a variety of international markets. These two products both attempted to move functionality from a "drafting-based" to "model-based" approach. Although some model-based design systems have been attempted in the past, none had been developed on top of a leading design and drafting platform such as AutoCAD. Finally, none had been developed with a tight linkage to the design and drafting functions inherent in a broad platform such as AutoCAD.

Although the functionality of these products is somewhat similar to previous Softdesk products, there was significant technological risk in developing products in a new, unproven development environment. While such development had been conducted within Autodesk--in the mechanical CAD division (for Mechanical Desktop(R) soft-ware)--it had not been successfully done by other companies.

With respect to the acquired in-process technologies, as previously discussed, the calculations of value were adjusted to reflect the value creation efforts of Softdesk prior to the close of the acquisition. Following are the estimated completion percentages, estimated technology lives, and projected introduction dates as of the date of the acquisition of Softdesk:

Softdesk in-process technologies	Percent completed	Technology life	Introduction dates
AutoCAD Architectural/Structural modules	65%	7 years	Sept 1998/June 1997
AutoCAD Civil modules	90%	7 years	May/June 1997
AutoCAD Imaging modules	75%	5 years	May/June 1997
AutoCAD Maintenance modules	65%	7 years	May/June 1997
AutoCAD Productivity modules	65%	7 years	May/June 1997
AutoCAD Retail modules	70%	7 years	July 1997

Estimated costs to be incurred to reach technological feasibility as of the date of acquisition for all of the Softdesk in-process technologies totaled approximately $1.8 million, with the AutoCAD Architectural/Structural modules comprising approximately $1.2 million of the total. The remaining in-process projects each had estimated costs to complete of less than $200,000. These in-process projects have been completed.

Valuation analysis. Future revenue estimates were generated from the following product families: (i) AutoCAD Architectural/Structural, (ii) AutoCAD Civil, (iii) AutoCAD Imaging, (iv) AutoCAD Maintenance, (v) AutoCAD Productivity, and (vi) AutoCAD Retail. Aggregate revenue for Softdesk products was estimated to be less than $30 million for the 10 months ended January 31, 1998. Revenues, including revenues associated with yet-to-be-developed products utilizing the acquired technologies, as well as most of the in-process projects identified in the valuation analysis, were estimated to increase on an annualized basis by more than 250 percent for fiscal year 1999. Thereafter, revenue was estimated to increase at rates ranging from 11 to 17 percent for fiscal years 2000 through 2002 and to stabilize at 10 percent for the remainder of the estimation period. Revenue estimates were based on (i) aggregate revenue growth rates for the business as a whole, (ii) individual product revenues, (iii) growth rates for the CAD software market, (iv) the aggregate size of the CAD software market, (v) anticipated product development and introduction schedules, (vi) product sales cycles, and (vii) the estimated life of a product's underlying technology. The estimated product development cycle for the new modules ranged from 6 to 24 months (averaging 12 months).

Operating expenses used in the valuation analysis of Softdesk included (i) cost of goods sold, (ii) general and administrative expense, (iii) marketing and sales expense, and (iv) research and development expense. In developing future expense estimates, it was assumed that the Softdesk operations would be merged into Autodesk's operating structure. Selected operating expense assumptions were based on an evaluation of Autodesk's overall business model, specific product results, including both historical and expected direct expense levels (as appropriate), and an assessment of general industry metrics.

Cost of revenues, expressed as a percentage of revenue, for the developed technology identified in the valuation analysis ranged from approximately 19 percent for fiscal year 1998 to approximately 14 percent for fiscal year 2002. Cost of revenues, expressed as a percentage of revenue, for the in-process technology ranged from approximately 17 percent for fiscal year 1998 to approximately 15 percent for fiscal year 2004. Autodesk's cost of revenues was 13 percent for fiscal year 1996, 13 percent for fiscal year 1997, and 12 percent for fiscal year 1998.

General and administrative expense, expressed as a percentage of revenue, for the developed technology identified in the valuation analysis ranged from approximately 6 percent for fiscal year 1998 to approximately 7 percent for fiscal year 2002. General and administrative expense, expressed as a percentage of revenue, for the in-process technology ranged from approximately 8 percent for fiscal year 1998 to approximately 7 percent for fiscal year 2002.

Marketing and sales expense, expressed as a percentage of revenue, for the developed technology identified in the valuation ranged from approximately 31 percent for fiscal year 1998 to approximately 28 percent for fiscal year 2002. Marketing and sales expense, expressed as a percentage of revenue, for the in-process technology ranged from approximately 32 percent for fiscal year 1998 to approximately 29 percent for fiscal year 2002.

Research and development expenses consist of the costs associated with activities undertaken to correct errors or keep products updated with current information. The maintenance R&D expense was estimated to be 2.5 percent of revenue for the developed and in-process technologies throughout the estimation period.

The effective income tax rate utilized in the analysis of in-process technology was 36 percent for fiscal year 1998, 34 percent for fiscal year 1999, and in the mid-30 percentage range thereafter, which reflects Autodesk's combined federal and state statutory income tax rate, exclusive of nonrecurring charges at the time of the acquisition and estimated for future years.

The discount rates selected for developed and in-process technology were 15.0 percent and 20.0 percent, respectively. In the selection of the appropriate discount rates, consideration was given to (i) the Company's WACC (14.0 percent) and (ii) the Company's Weighted Average Return on Assets (20.0 percent) at the date of acquisition. The discount rate utilized for the in-process technology was determined to be higher than Autodesk's WACC due to the fact that the technology had not yet reached technological feasibility as of the date of valuation. In utilizing a discount rate greater than Autodesk's WACC, management has reflected the risk premium associated with achieving the forecasted cash flows associated with these projects.

Comparison to actual results. To date, the assumptions used in the projections of revenues from in-process technologies and the estimated costs and completion dates for those technologies were reasonable based on factors known at the acquisition date. Actual revenues from in-process technologies have been less than amounts projected in connection with the analysis of the Softdesk acquisition. This shortfall reflects competitive factors related to price, difficulties in developing robust commercial applications in the new ObjectARX environment, functionality, and performance in the architecture, engineering, and construction software industry, particularly in regard to localized building services applications. Partially offsetting the variance from management's original revenue projections is a favorable variance in spending. Additionally, the value of other intangible assets acquired from Softdesk may become impaired.

Other nonrecurring charges--fiscal year 1999

During the second quarter of fiscal year 1999, Autodesk 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 current 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). These charges reduced income after tax by approximately $5.9 million ($0.12 per share on a diluted basis).

Other nonrecurring charges--fiscal year 1998

In the first quarter of fiscal year 1998, the Company acquired certain assets of and licensed technology from 3D/Eye for $5.8 million. Of the total cost, $3.0 million represented the value of in-process research and development that had not yet reached technological feasibility and had no alternative future use and was charged to operations.

Other nonrecurring charges--fiscal year 1997

During fiscal year 1997, the Company acquired certain businesses for an aggregate of $9.9 million. Included in these acquisitions were the purchases of assets from Creative Imaging Technologies, Inc. ("CIT"), CadZooks, Inc., and Argus Technologies, Inc. ("Argus"), as well as the outstanding stock of Teleos Research ("Teleos"). Approximately $3.2 million of the Teleos purchase price and $1.5 million of the Argus purchase price represented the value of in-process research and development and were charged to operations during fiscal year 1997.

Interest and other income

Interest income was $14.2 million, $9.8 million, and $8.8 million in fiscal years 1999, 1998, and 1997, respectively. The increase in fiscal year 1999 interest income over fiscal year 1998 and 1997 interest income was largely due to an increase in average cash, cash equivalents, and marketable securities balances. Interest and other income in fiscal years 1999, 1998, and 1997 was net of interest expense of $0.4 million, $0.2 million, and $1.8 million, respectively.

The Company has a hedging program to minimize foreign exchange gains or losses, where possible, from recorded foreign-denominated assets and liabilities. This program involves the use of forward foreign exchange contracts in the primary European and Asian currencies. The Company does not hedge anticipated foreign-denominated revenues and expenses not yet incurred. Losses resulting from foreign currency transactions primarily in Europe and Asia Pacific, which are included in interest and other income, were $0.4 million, $0.1 million, and $0.2 million in fiscal years 1999, 1998, and 1997, respectively.

Provision for income taxes

Autodesk's effective income tax rate, excluding the impact of nonrecurring charges, was 35.4 percent in fiscal year 1999 compared to 38.0 percent and 35.5 percent in fiscal years 1998 and 1997, respectively. The decrease in the effective income tax rate in fiscal year 1999 compared to fiscal year 1998 was due to incremental tax benefits associated with the Company's foreign sales corporation and foreign earnings, which are taxed at rates different from the U.S. statutory rate. The increase in the tax rate between fiscal years 1998 and 1997 was due to the amortization of certain intangible assets not deductible for tax purposes and foreign earnings, which are taxed at rates different from the U.S. statutory rate. See Note 3 to the consolidated financial statements for an analysis of the differences between the U.S. statutory and effective income tax rates.

The Company's United States income tax returns for fiscal years ended January 31, 1992 through 1996 are under examination by the Internal Revenue Service. On August 27, 1997, the Internal Revenue Service issued a Notice of Deficiency proposing increases to the amount of the Company's United States 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. The resolution of these alleged tax deficiencies and any 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.

Recently issued accounting standards

In December 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 98-9 ("SOP 98-9"), which amends certain provisions of SOP 97-2 "Software Revenue Recognition" and extends the deferral of the application of certain passages of SOP 97-2 provided by SOP 98-4 until the beginning of Autodesk's fiscal year 2001. Autodesk does not expect the adoption of this standard to have a material effect on its consolidated operating results or financial position.

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). The statement requires companies 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. SFAS 133 is effective as of the beginning of Autodesk's fiscal year 2001. Autodesk is currently evaluating the impact of SFAS 133 on its financial statements and related disclosures.

In the first quarter of fiscal year 1999, the Company adopted the provisions of the AICPA's SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This standard requires companies to capitalize qualifying computer software costs which are incurred during the application development stage and amortize them over the software's estimated useful life. The adoption of this standard did not have a material effect on the Company's consolidated operating results or financial position in fiscal year 1999.

RESTATEMENT

As described in Note 10, the acquisition of Softdesk, Inc. ("Softdesk"), was accounted for as a business combination using the purchase method of accounting. In accordance with Accounting Principles Board Opinion No. 16, "Accounting for Business Combinations," the cost of the Softdesk acquisition was allocated to the assets acquired and the liabilities assumed (including in-process research and development) based on their estimated fair values using valuation methods believed to be appropriate at the time. The amount allocated to in-process research and development of $55.1 million was expensed in the first quarter of fiscal year 1998 (the period in which the acquisition was consummated) in accordance with FASB Interpretation No. 4, "Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method." Subsequent to the Securities and Exchange Commission's letter to the AICPA dated September 9, 1998, regarding its views on in-process research and development ("IPR&D"), the Company has reevaluated its IPR&D charges on the Softdesk acquisition, revised the purchase price allocation, and restated its financial statements. As a result, Autodesk made adjustments to decrease the amounts previously expensed as IPR&D and increase the amounts capitalized as goodwill and other intangibles relating to the Softdesk acquisition by $35.9 million.

The effect of this adjustment on previously reported consolidated financial statements as of and for the year ended January 31, 1998, is as follows:

(In thousands, except for per share data)

	As reported	As restated
Nonrecurring charges	$ 58,087	$ 22,187
General and administrative	83,287	88,900
Cost of revenues	70,858	71,338
Income from operations	45,355	75,162
Net income	15,364	45,171
Basic net income per share	$ 0.33	$ 0.97
Diluted net income per share	0.31	0.91
Purchased technologies and capitalized software, net	31,553	33,373
Goodwill, net	16,995	44,982
Retained earnings	19,895	49,702

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 $378.2 million at January 31, 1999, compared to $301.3 million at January 31, 1998. The $76.9 million increase in cash, cash equivalents, and marketable securities was due primarily to cash generated from operations ($146.7 million) and cash proceeds from the issuance of shares through employee stock option and stock purchase programs ($90.6 million). This increase was partially offset by cash used to acquire complementary technologies and businesses ($69.3 million), to repurchase shares of the Company's common stock ($48.9 million), to purchase computer equipment, furniture, and leasehold improvements ($30.4 million), and to pay dividends on the Company's common stock ($11.7 million).

During fiscal years 1999, 1998, and 1997, the Company repurchased and retired a total of 600,000, 2,332,500, and 1,659,500 shares of its common stock at average repurchase prices of $42.56, $38.39, and $32.44, respectively, pursuant to an ongoing and systematic repurchase plan ("Systematic Plan") approved by the Company's Board of Directors to reduce the dilutive effect of common shares to be issued under the Company's employee stock plans. In December 1997, the Board of Directors authorized the purchase of an additional 4 million shares under the Systematic Plan.

In August 1996, Autodesk announced another stock repurchase program for the purchase of up to 5 million shares of common stock in open market transactions as market and business conditions warranted--the "Supplemental Plan." In December 1997, the Board of Directors authorized the purchase of an additional 5 million shares under the Supplemental Plan. The Company could utilize equity options as part of the Supplemental Plan.

In connection with the Supplemental Plan, the Company sold put warrants to an independent third party in September 1996 and purchased call options from the same independent third party. The premiums received with respect to the equity options equaled the premiums paid. Consequently, there was no exchange of cash. The Company exercised the call options, repurchasing 2,000,000 shares of its common stock during the third quarter of fiscal year 1998 for $51 million. The put warrants expired unexercised in September 1997 and were reclassified from put warrants to stockholders' equity during the third quarter of fiscal year 1998. For additional information, see Note 7 to the consolidated financial statements. During fiscal years 1999, 1998, and 1997, the Company repurchased and retired a total of 545,000, 1,000,000, and 557,500 shares of its common stock at average repurchase prices of $42.81, $34.37, and $24.09, respectively, subject to the Supplemental Plan.

In December 1997, the Company sold put warrants to an independent third party that entitled the holder of the warrants to sell 1.5 million shares of common stock to the Company at $38.12 per share. Additionally, the Company purchased call options from the same independent third party that entitled the Company to buy 1 million shares at $39.88 per share. The premiums received with respect to the equity options totaled $4.5 million and equaled the premiums paid. Consequently, there was no exchange of cash. The outstanding put warrants at January 31, 1998, permitted a net share settlement at the Company's option. In March 1998, the Company exercised the call option, electing the net share settlement option and retired approximately 97,000 shares of its common stock. The put warrants expired unexercised.

In connection with the acquisition of Discreet Logic Inc. (see Note 12 to the consolidated financial statements), in August 1998, the Autodesk Board of Directors rescinded its authorization of the Systematic Plan and the Supplemental Plan, both of which have been terminated.

The Company has an unsecured $40 million bank line of credit, of which $20 million is guaranteed, that may be used from time to time to facilitate short-term cash flow. At January 31, 1999, there were no borrowings outstanding under this credit agreement, which expires in January 2000.

The Company's principal commitments at January 31, 1999, consisted of obligations under operating leases for facilities. For additional information, see Note 5 to the consolidated financial statements. The Company anticipates making tax payments in connection with its federal tax audits in fiscal year 2000, none of which are expected to have a material adverse impact on the Company's consolidated results of operations or financial position. 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 fiscal year 2000.

Longer-term cash requirements, other than normal operating expenses, are anticipated for development of new software products and enhancement of existing products; financing anticipated growth; dividend payments; and the acquisition of businesses, software products, or technologies complementary to the Company's business. The Company 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.

CERTAIN RISK FACTORS WHICH MAY IMPACT FUTURE OPERATING RESULTS

Autodesk operates in a rapidly changing environment that involves a number of risks, some 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.

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 Architecture, Engineering, and Construction family of products competes directly with software 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.; and Visio Corporation ("Visio"). Autodesk's MCAD products compete with products offered by Bentley; Visionary Design Systems; Hewlett-Packard Corporation; Parametric Technology Corporation; Structural Dynamics Research Corporation; Unigraphics; Computervision; Dassault Systemes ("Dassault"); Solidworks Corporation (a subsidiary of Dassault); Baystate Technologies, Inc.; and think3. Autodesk's GIS Market Group faces competition from Bentley; Intergraph; MapInfo Corporation; Environmental Systems Research Institute ("ESRI"); and Smallworldwide plc. Kinetix(R) product offerings compete with products offered by other multimedia companies such as Adobe Systems Inc.; Macromedia, Inc.; Silicon Graphics, Inc.; and Avid Technology, Inc. The Personal Solutions Group family of products competes with IMSI; The Learning Company; Visio; Micrografx Inc.; and others. Certain of the competitors of Autodesk have greater financial, technical, sales and marketing, and other resources than Autodesk.

The future financial performance of Autodesk's 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.

Autodesk believes that the principal factors affecting competition in its markets are product relia-bility, 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 com-petitive 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.

Fluctuations in quarterly operating results

Autodesk has experienced fluctuations in operating results in interim periods in certain geographic regions due to seasonality. 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 within a quarter. While Autodesk experienced less fluctuation of operating results within fiscal years 1999 and 1998 as compared to prior years, historically the majority of Autodesk's orders within a fiscal quarter have frequently been concentrated within the last weeks or days of that 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.

The operating results of Autodesk's recently acquired Discreet business unit could vary significantly from quarter to quarter. 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 Discreet's 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 which 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 the Company's business and 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. Such 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.

In particular, 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 postacquisition 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 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. Such 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. During fiscal year 1999, changes in exchange rates from the same period of the prior fiscal year adversely impacted revenues, principally due to changes in the Japanese yen and the Australian dollar. As more fully described in Note 2 to the consolidated financial statements, the Company'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. The Company does not enter into derivative contracts for the purpose of trading or speculative transactions. The Company's international results may also be impacted by general economic and political conditions in these foreign markets, including the ongoing economic volatility currently experienced in certain Asia Pacific countries. These and other factors may have a material adverse effect on the Company's future international operations and consequently on the Company'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 currently 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. Computer 2000/Datech and Mensch und Maschine accounted for 11 percent ($84.2 million) and 11 percent ($81.2 million) of total consolidated revenues for fiscal year 1999, respectively. Revenues from Computer 2000/Datech and Mensch und Maschine are included in the Design Solutions segment. While no single customer accounted for more than 10 percent of Autodesk's consolidated revenues in fiscal years 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. Autodesk's largest international distributor is Computer 2000/Datech AG in Germany. Autodesk's largest resellers in the United States are Avatech, DLT Solutions, Inc., and Ingram Micro.

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. While Autodesk experienced a decrease in the overall level of product returns in fiscal year 1999 compared to fiscal years 1998 and 1997, 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 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 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, which are described in more detail in Note 6 to the consolidated financial statements. Autodesk may not be successful in continuing to recruit new personnel and to retain existing personnel. The loss of one or more key employees or Autodesk's inability to maintain existing em-

ployees or 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.

Disclosures about market risk

Foreign currency exchange risk
The Company's earnings and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. The Company's risk management strategy utilizes forward foreign exchange contracts to manage its exposures of underlying assets, liabilities, and other obligations which exist as part of its ongoing business operations. Contracts are primarily denominated in Swiss francs and Japanese yen. The Company does not enter into any foreign exchange derivative instruments for speculative purposes.

A sensitivity analysis was performed on the Company's hedging portfolio as of January 31, 1999. This analysis indicated that a hypothetical 10 percent appreciation of the U.S. dollar from January 31, 1999, market rates would increase the fair value of the Company's forward contracts by $3.0 million. Conversely, a hypothetical 10 percent depreciation of the dollar from January 31, 1999, market rates would decrease the fair value of the Company's forward contracts by $3.3 million. The Company does not anticipate any material adverse effect on its consolidated financial position, results of operations, or cash flows as a result of these forward foreign exchange contracts.

Interest rate sensitivity
The Company had an investment portfolio of fixed income securities, including those classified as cash equivalents and security deposits, of $179.8 million at January 31, 1999. These securities are subject to interest rate fluctuations and will decrease in market value if interest rates increase.

A sensitivity analysis was performed on the Company's investment portfolio as of January 31, 1999. This sensitivity analysis is based on a modeling technique that measures the hypothetical market value changes that would result from a parallel shift in the yield curve of plus 50, plus 100, or plus 150 basis points over 6-month and 12-month time horizons. The market value changes for a 50, 100, or 150 basis point increase were not material due to the limited duration of the Company's portfolio.

The Company does not use derivative financial instruments in its investment portfolio to manage interest rate risk. The Company places its investments in instruments that meet high credit quality standards, as specified in its investment policy guidelines, which limits the amount of credit exposure to any one issue, issuer, or type of instrument.

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 is currently in the final stages of the project related to information technology ("IT") systems and will continue testing applications throughout its fiscal year 2000, which began on February 1, 1999. Autodesk also continues to complete the remediation of its internal infrastructure and expects to complete the majority of this work by the end of the first quarter of fiscal year 2000. The remaining efforts of this infrastructure remediation in some international offices are partially dependent on third-party products. These third-party products may not be converted in a timely manner or at all, and any failure in this regard may cause Autodesk infrastructure not to function properly.

During fiscal year 1999, Autodesk spent approximately $4 million on the IT year 2000 project. These costs were expensed as incurred in accordance with EITF 96-14, "Accounting for the Costs Associated with Modifying Computer Software for the Year 2000." Autodesk expects to spend an additional $2 million to $3 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 been either replaced or remediated. Throughout the remainder of fiscal year 2000, Autodesk will continue to work on business continuity plans which include the documentation and testing of manual processes to address any potential future issues related to the year 2000. 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 between one and three days in service interruptions and processing Autodesk information. Autodesk has a contingency plan in place to prevent the loss of critical data, which includes the backup of all critical data-proc essing interactions and a disaster recovery plan. There can be no assurance, however, that there will not be a delay in the completion of these procedures or that the cost of such procedures will not 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 it uses 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. During fiscal year 1999, Autodesk spent approximately $600,000 on a year 2000 compliance testing program related to its products and expects to spend an additional $300,000 to $800,000 to complete this project. Products currently sold 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. There can be no assurance that these operating systems or hardware will 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 that 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
Effective January 1, 1999, 11 of the 15 member countries of the European Union have adopted the euro as their legal currency. On that date, the participating countries established fixed euro conversion rates between their existing sovereign currencies and the euro. The euro now trades on currency exchanges and is available for noncash transactions. As of February 1, 1999, Autodesk's internal systems have the ability to price and invoice customers in the euro. Autodesk is also engaging in foreign exchange and hedging activities in the euro. Autodesk will continue to modify the internal systems that will be affected by this conversion during fiscal year 2000, and it does not expect the costs of further system modifications to be material. There can be no assurance, however, that Autodesk will be able to complete such modifications to comply with euro requirements, which could have a material adverse effect on Autodesk's operating results. Autodesk will continue to evaluate the impact of the introduction of the euro on its foreign exchange and hedging 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 will 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, joint ventures, 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. There can be no assurance that the Company will be successful in overcoming such risks or that such investments and acquisitions will not have a material adverse impact on the Company'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 the Company's operating results and financial condition.

As further described in Note 10 to the consolidated financial statements, on May 4, 1998, the Company acquired the mechanical applications business of Genius for approximately $69 million in cash, which includes fees and expenses. As discussed in Note 12, on March 16, 1999, the Company acquired Discreet Logic Inc. ("Discreet"), in a business combination accounted for as a pooling of interests. There can be no assurance that the anticipated benefits of the Genius acquisition, the Discreet acquisition, or any future acquisitions will be realized.

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's 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.

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 there can be no assurance as to the extent to which this will occur, if at all. 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(TM) 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.

CONSOLIDATED STATEMENT OF INCOME

(In thousands, except per share data)	Fiscal year ended January 31, 1999	1998 (restated)	1997
Net revenues	$ 740,167	$ 617,126	$ 496,693
Costs and expenses:			
Cost of revenues	76,364	71,338	64,217
Marketing and sales	260,553	237,107	199,939
Research and development	142,806	122,432	93,702
General and administrative	123,622	88,900	74,280
Nonrecurring charges	21,985	22,187	4,738
Litigation accrual reversal	(18,200)	--	--
Total costs and expenses	607,130	541,964	436,876
Income from operations	133,037	75,162	59,817
Interest and other income, net	13,523	9,644	6,695
Income before income taxes	146,560	84,806	66,512
Provision for income taxes	55,921	39,635	24,941
Net income	$ 90,639	$ 45,171	$ 41,571
Basic net income per share	$ 1.94	$ 0.97	$ 0.91
Diluted net income per share	$ 1.85	$ 0.91	$ 0.88
Shares used in computing basic net income per share	46,640	46,760	45,540
Shares used in computing diluted net income per share	48,910	49,860	47,190

See accompanying notes.

CONSOLIDATED BALANCE SHEET

(In thousands)	January 31, 1999	1998 (restated)
Assets		
Current assets:		
Cash and cash equivalents	$ 209,174	$ 96,089
Marketable securities	102,756	100,399
Accounts receivable, net of allowance for doubtful accounts of $6,805 ($7,136 in 1998)	91,847	60,856
Inventories	7,594	7,351
Deferred income taxes	20,323	27,577
Prepaid expenses and other current assets	18,795	15,430
Total current assets	450,489	307,702
Marketable securities, including a restricted balance of $18,000 in 1998	66,265	104,831
Computer equipment, furniture, and leasehold improvements:		
Computer equipment and furniture	116,467	117,434
Leasehold improvements	22,947	20,505
Accumulated depreciation	(99,747)	(98,800)
Net computer equipment, furniture, and leasehold improvements	39,667	39,139
Purchased technologies and capitalized software, net of accumulated amortization of $46,344 ($29,471 in 1998)	30,559	33,373
Goodwill	70,348	44,982
Deferred income taxes	11,417	13,782
Other assets	25,132	19,681
	$ 693,877	$ 563,490
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 27,431	$ 26,417
Accrued compensation	45,253	34,962
Accrued income taxes	91,085	76,465
Deferred revenues	17,349	18,934
Other accrued liabilities	50,481	42,709
Total current liabilities	231,599	199,487
Deferred income taxes	378	481
Litigation accrual	--	29,328
Other liabilities	1,658	1,255
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value; 250,000 shares authorized, 47,342 issued and outstanding (45,465 in 1998)	361,611	299,315
Accumulated other comprehensive income	(9,379)	(16,078)
Retained earnings	108,010	49,702
Total stockholders' equity	460,242	332,939
	$ 693,877	$ 563,490

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Fiscal year ended January 31,		
	1999	1998(restated)	1997
Operating activities			
Net income	$ 90,639	$ 45,171	$ 41,571
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	63,177	49,947	34,833
Charge for acquired in-process research and development	13,100	22,187	4,738
Litigation and related interest accrual reversal	(20,900)	--	--
Net gain on disposition of business unit	(1,307)	--	--
Loss on disposal of long-lived assets	3,531	--	--
Changes in operating assets and liabilities, net of business combinations:			
Accounts receivable	(30,991)	8,829	25,365
Inventories	(93)	534	2,345
Deferred income taxes	9,516	(10,947)	(785)
Prepaid expenses and other current assets	(3,365)	1,501	890
Accounts payable and accrued assets	8,808	40,125	(4,318)
Accrued income taxes	14,620	1,265	9,544
Net cash provided by operating acivities	146,735	158,612	114,183
Investing activities			
Purchases of available-for-sale marketable securities	(838,591)	(1,102,015)	(683,550)
Maturities of available-for-sale marketable securities	874,800	1,126,174	604,727
Purchase of computer equipment, furniture, and leasehold improvement	(30,396)	(15,000)	(17,409)
Business combinations, net of cash acquired	(69,279)	(5,766)	(9,908)
Proceeds from disposition of business unit	5,137	--	--
Proceeds from disposition of fixed assets	2,719	--	--
Purchases of software technologies and capitalization of software development costs	(5,979)	(19,833)	(995)
Acquisition of other assets	(6,190)	--	--
Other	(4,771)	(36)	(3,407)
Net cash used by investing activities	(72,550)	(16,476)	(110,542)
Financing activities			
Proceeds from issuance of common stock	90,553	80,059	23,307
Repurchase of common stock	(48,866)	(174,907)	(67,269)
Dividends paid	(11,722)	(11,290)	(10,879)
Net cash provided by (used in) financing activities	29,965	(106,138)	(54,841)
Effect of exchange rate changes on cash	8,935	(4,723)	(13,291)
Net increase (decrease) in cash and cash equivalents	113,085	31,275	(64,491)
Cash and cash equivalents at beginning of year	96,089	64,814	129,305
Cash and cash equivalents at end of year	$ 209,174	$ 96,089	$ 64,109

Supplemental disclosure of noncash investing and financing activities:

Common stock received in relation to the equity collar	$ 4,265	$ --	$ --
Common stock issued in connection with the acquisition of Software	$ --	$ 92,021	$ --

See accompanying notes.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(In thousands)	Three-year period ended January 31, 1999					
	Common stock			Accumulated other		Total
	Shares	Amount	Comprehensive income	comprehensive Income	Retained earnings	stockholders' equity
Balances, January 31, 1996	46,351	$ 140,765		$11,095	$ 190,468	$ 342,328
Common shares issued under stock option and stock purchase plans	974	20,729				20,729
Tax effect of stock options		2,578				2,578
Reclassification of put warrants	(9,870)			(54,630)	(64,500)	
Comprehensive income:						
Net income			$ 41,571		41,571	41,571
Other comprehensive loss, net of tax						
Unrealized losses on available-for-sale securities, net of reclassification adjustments			(426)			(426)
Foreign currency translation adjustment			(20,518)			(20,518)
Other comprehensive loss			(20,944)	(20,944)		
Comprehensive income			$ 20,627			
Dividends paid					(10,879)	(10,879)
Repurchase of common shares	(2,217)	(7,111)			(60,158)	(67,269)
Balances, January 31, 1997	45,108	147,091		(9,849)	106,372	243,614
Common shares issued under stock option and stock purchase plans	2,790	63,829				63,829
Tax effect of stock options		16,230				16,230
Reclassification of put warrants		9,870			54,630	64,500
Shares issued in connection with business combination	2,900	92,021				92,021
Comprehensive income:						
Net income (restated)			45,171		45,171	45,171
Other comprehensive income (loss), net of tax:						
Unrealized gains on available-for-sale securities, net of reclassification adjustments			362			362
Foreign currency translation adjustment			(6,591)			(6,591)
Other comprehensive loss			(6,229)	(6,229)		
Comprehensive income (restated)			$ 38,942			
Dividends paid					(11,290)	(11,290)
Repurchase of common shares	(5,333)	(29,726)			(145,181)	(174,907)
Balances, January 31, 1998(restated)	45,465	299,315		(16,078)	49,702	332,939
Common shares issued under stock option and stock purchase plans	3,119	75,084				75,084
Tax effect of stock options		15,469				15,469
Comprehensive income:						
Net income			90,639		90,639	90,639
Other comprehensive income, net of tax:						
Unrealized gains on available-for-sale securities, net of						

reclassification adjustments			198			198
Foreign currency translation adjustment			6,501			6,501
Other comprehensive income			6,699	6,699		
Comprehensive income			$ 97,338			
Dividends paid					(11,722)	(11,722)
Repurchase of common shares	(1,242)	(28,257)			(20,609)	(48,866)
Balances, January 31, 1999	47,342	$361,611		$ (9,379)	$108,010	$460,242

See accompanying notes.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations
Autodesk, Inc. ("Autodesk" or the "Company") is a leader in the development and marketing of design and drafting software and multimedia tools, primarily for the business and professional environment. Autodesk's flagship product, AutoCAD, is one of the world's leading computer-aided design ("CAD") tools, with an installed base of 2.1 million seats worldwide.

Principles of consolidation
The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. Certain reclassifications have been made to the 1997 and 1998 consolidated financial statements to conform to the 1999 presentation.

Use of estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Foreign currency translation
The asset and liability accounts of foreign subsidiaries are translated from their respective functional currencies at the rates in effect at the balance sheet date, and revenue and expense accounts are translated at weighted average rates during the period. Foreign currency translation adjustments are reflected as a separate component of stockholders' equity. Losses resulting from foreign currency transactions, which are included in interest and other income, were ($405,000), ($68,000), and ($197,000) in fiscal years 1999, 1998, and 1997, respectively.

The Company hedges a portion of its exposure on certain receivables and payables denominated in foreign currencies using forward foreign exchange contracts in European and Asian currencies. Gains and losses associated with exchange rate fluctuations on forward foreign exchange contracts are recorded currently in interest and other income and offset corresponding gains and losses on the foreign currency assets being hedged. The costs of forward foreign exchange contracts are amortized on a straight-line basis over the life of the contract as interest and other income.

Cash and cash equivalents
The Company considers all highly liquid investments with insignificant interest rate risk and original maturities of three months or less to be cash equivalents. Cash equivalents are recorded at cost, which approximates fair value.

Marketable securities
Marketable securities, consisting principally of high-quality municipal bonds, tax-advantaged money market instruments, and U.S. Treasury notes, are stated at fair value. Marketable securities maturing within one year that are not restricted are classified as current assets.

The Company determines the appropriate classification of its marketable securities at the time of purchase and reevaluates such classification as of each balance sheet date. The Company has classified all of its marketable securities as available-for-sale and carries such securities at fair value, with unrealized gains and losses, net of tax, reported in stockholders' equity until disposition.

Concentration of credit risk
The Company places its cash, cash equivalents, and marketable securities with financial institutions with high credit standing and, by policy, limits the amounts invested with any one institution, type of security, and issuer. Autodesk's accounts receivable are derived from software sales to a large number of resellers and distributors in the Americas, Europe, and the Asia Pacific region. The Company performs ongoing evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary, but generally requires no collateral. Two customers accounted for approximately 11 percent each of consolidated net revenues in fiscal year 1999. No single customer accounted for more than 10 percent of consolidated net revenues in fiscal years 1998 or 1997.

Inventories
Inventories, consisting principally of disks, compact disks (CDs), and user manuals, are stated at the

lower of cost (determined on the first-in, first-out method) or market.

Computer equipment, furniture, and leasehold improvements

Computer equipment, furniture, and leasehold improvements are stated at cost. Computer equipment and furniture are depreciated using the straight-line method over the estimated useful lives of the assets, which range from two to five years. Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful life or the lease term. Depreciation expense was $27,078,000, $22,876,000, and $21,252,000 in fiscal years 1999, 1998, and 1997, respectively.

Purchased technologies and capitalized software

Costs incurred in the initial design phase of software development are expensed as incurred. Once the point of technological feasibility is reached, production costs (programming and testing) are capitalized. Certain acquired software-technology rights are also capitalized. Capitalized software costs are amortized ratably as revenues are recognized, but not less than on a straight-line basis over two- to seven-year periods. Amortization expense, which is included as a component of cost of revenues, was $17,609,000, $13,148,000, and $9,563,000 in fiscal years 1999, 1998, and 1997, respectively. The actual lives of the Company's purchased technologies or capitalized software may differ from management's estimates, and such differences could cause carrying amounts of these assets to be reduced materially.

Other assets and goodwill

Amortization of purchased intangibles and goodwill is provided on a straight-line basis over the respective useful lives of the assets, which range from three to ten years. Accumulated amortization was $44,646,000, $28,169,000, and $14,293,000 in fiscal years 1999, 1998, and 1997, respectively. The Company evaluates the realizability and the related periods of amortization of these assets on a regular basis. Amortization expense, which is included as a component of general and administrative expenses, was $18,490,000, $13,923,000, and $4,018,000 in fiscal years 1999, 1998, and 1997, respectively.

Employee stock compensation

The Company accounts for its employee stock plans under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

Revenue recognition

Autodesk's revenue recognition policy is in compliance with the provisions of the American Institute of Certified Public Accountants' Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2"), as amended by Statement of Position 98-4 ("SOP 98-4"). Revenue is recognized at the time of shipment, provided that no significant vendor obligations exist and collection of the resulting receivable is deemed probable. A portion of revenues related to certain customer consulting and training obligations is deferred.

With the exception of certain European distributors, agreements with the Company'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.

Autodesk establishes allowances for product returns, including allowances for stock balancing and product rotation, based on estimated future returns of product and after taking into consideration channel inventory levels at its resellers, the timing of new product introductions, and other factors. These allowances are recorded as direct reductions of revenue and accounts receivable. While the Company maintains strict measures to monitor channel inventories and to provide appropriate allowances, actual product returns may differ from the Company's estimates, and such differences could be material to the consolidated financial statements.

Advertising

Advertising costs are expensed the first time the advertising takes place. Total advertising expenses incurred were $10,469,000, $12,194,000, and $10,830,000 during fiscal years 1999, 1998, and 1997, respectively.

Royalties

The Company licenses software used to develop components of certain software products. Royalties are payable to developers of the software at various rates and amounts generally based on unit sales or revenues. Royalty expense was $6,375,000, $7,640,000, and $8,000,000 in fiscal years 1999, 1998, and 1997, respectively. Such costs are included as a component of cost of revenues.

Net income per share

The Company computes net income per share in accordance with Financial Accounting Standards Board Statement No. 128, "Earnings Per Share"

("SFAS 128"). SFAS 128 requires companies to pre-sent both basic net income per share and diluted net income per share. Basic net income per share excludes dilutive common stock equivalents and is calculated as net income divided by the weighted average common shares outstanding. Diluted net income per share is computed using the weighted average number of outstanding common shares and dilutive common stock equivalents outstanding during the period. A reconciliation of the numerators and denominators used in the basic and diluted net income per share amounts follows:

(In thousands) Fiscal year ended January 31,	1999	1998 (restated)	1997
Numerator:			
Numerator for basic and diluted net income per share--net income	$ 90,639	$ 45,171	$ 41,571
Denominator:			
Denominator for basic net income per share--weighted average shares	46,640	46,760	45,540
Effect of dilutive common stock options	2,270	3,100	1,650
Denominator for diluted net income per share	48,910	49,860	47,190

See Note 13 for related quarterly financial data amounts.

Stock options to purchase 3.2 million, 1.9 million, and 4.8 million shares of common stock in fiscal years 1999, 1998, and 1997, respectively, were outstanding but not included in the computation of diluted net income per share because the option exercise price was greater than the average market price of the common shares.

Recently issued accounting standards

In December 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 98-9 ("SOP 98-9"), which amends certain provisions of SOP 97-2 and extends the deferral of the application of certain passages of SOP 97-2 provided by SOP 98-4 until the beginning of Autodesk's fiscal year 2001. Autodesk does not expect the adoption of this standard to have a material effect on its consolidated operating results or financial position.

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). The 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. SFAS 133 is effective as of the beginning of Autodesk's fiscal year 2001. Autodesk is currently evaluating the impact of SFAS 133 on its financial statements and related disclosures.

In the first quarter of fiscal year 1999, the Company adopted the provisions of the AICPA's SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This standard requires companies to capitalize qualifying computer software costs which are incurred during the application development stage and amortize them over the software's estimated useful life. The adoption of this standard did not have a material effect on the Company's consolidated operating results or financial position in fiscal year 1999.

Restatement

As described in Note 10, the acquisition of Softdesk, Inc. ("Softdesk"), was accounted for as a business combination using the purchase method of accounting. In accordance with Accounting Principles Board Opinion No. 16, "Accounting for Business Combinations," the cost of the Softdesk acquisition was allocated to the assets acquired and the liabilities assumed (including in-process research and development) based on their estimated fair values using valuation methods believed to be appropriate at the time. The amounts allocated to in-process research and development of $55.1 million was expensed in the first quarter of fiscal year 1998 (the period in which the acquisition was consummated) in accordance with FASB Interpretation No. 4, "Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Meth-od." Subsequent to the Securities and Exchange Commission's letter to the AICPA dated September 9, 1998, regarding its views on in-process research and development ("IPR&D"), the Company has reevaluated its IPR&D charges on the Softdesk acquisition, revised the purchase price allocation, and restated its financial statements. As a result, Autodesk made adjustments to decrease the amounts previously expensed as IPR&D and increase the amounts capitalized as goodwill and other intangibles relating to the Softdesk acquisition by $35.9 million.

The effect of this adjustment on previously reported consolidated financial statements as of and for the year ended January 31, 1998, is as follows:

(In thousands, except per share data)	As reported	As restated
Nonrecurring charges	$ 58,087	$ 22,187
General and administrative	83,287	88,900
Cost of revenues	70,858	71,338
Income from operations	45,355	75,162
Net income	15,364	45,171
Basic net income per share	$ 0.33	$ 0.97
Diluted net income per share	0.31	0.91
Purchased technologies and capitalized software, net	31,553	33,373
Goodwill, net	16,995	44,982
Retained earnings	19,895	49,702

NOTE 2. FINANCIAL INSTRUMENTS

Fair values of financial instruments
Estimated fair values of financial instruments are based on quoted market prices. The carrying amounts and fair value of the Company's financial instruments are as follows:

(In thousands)	January 31, 1999		January 31, 1998	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	$ 209,174	$ 209,174	96,089	96,089
Marketable securities	169,021	169,021	205,230	205,230
Forward foreign currency contracts	(80)	(80)	(124)	(124)

Foreign currency contracts
The Company utilizes derivative financial instruments in the form of forward foreign exchange contracts only 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. The Company, as a matter of policy, does not engage in trading or speculative transactions. In general, instruments used as hedges must be effective at reducing the foreign currency risk associated with the underlying transaction being hedged and must be designated as a hedge at the inception of the contract. Substantially all forward foreign currency contracts entered into by the Company have maturities of 60 days or less. The Company uses the forward contracts only as hedges of existing transactions. Amounts receivable and payable on forward foreign exchange contracts are recorded as other current assets and other accrued liabilities, respectively. For these contracts, mark-to-market gains and losses are recognized as other income or expense in the current period, generally consistent with the period in which the gain or loss of the underlying transaction is recognized. Cash flows associated with derivative transactions are classified in the statement of cash flows in a manner consistent with those of the transactions being hedged. The notional amounts of foreign currency contracts were $31.2 million and $38.8 million at January 31, 1999 and 1998, respectively, and were predominantly to buy Swiss francs. While the contract or notional amount is often used to express the volume of foreign exchange contracts, the amounts potentially subject to credit risk are generally limited to the amounts, if any, by which the counterparties' obligations under the agreements exceed the obligations of the Company to the counterparties.

Marketable securities

Marketable securities include the following available-for-sale securities at January 31, 1999 and 1998:

(In thousands) January 31, 1999

	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Short-term:				
Municipal bonds	$ 90,655	$ 157	$ --	$ 90,812
Preferred stock	10,000	--	--	10,000
Treasury bills	1,944	--	--	1,944
	102,599	157	--	102,756
Long-term:				
Municipal bonds	65,247	1,018	--	66,265
	65,247	1,018	--	66,265
	$ 167,846	$ 1,175	$ --	$ 169,021

January 31, 1998

	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Short-term:				
Municipal bonds	$ 24,383	$ --	$ (22)	$ 24,361
Treasury bills	9,994	2	--	9,996
Preferred stock	2,000	--	--	2,000
Money market deposits	64,042	--	--	64,042
	100,419	2	(22)	100,399
Long-term:				
Municipal bonds	85,911	935	--	86,846
U.S. Treasury bills	17,987	--	(2)	17,985
	103,898	935	(2)	104,831
	$ 204,317	$ 937	$ (24)	$ 205,230

Long-term U.S. Treasury bills included a restricted balance of $18.0 million at January 31, 1998 (see Note 4). The contractual maturities of Autodesk's short-term marketable securities at January 31, 1999, were one year or less while the Company's long-term marketable securities had contractual maturities as follows: $10.5 million between one and two years; $24.1 million maturing in three years; $15.7 million maturing in four to five years; and $15.9 million beyond five years. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay or call obligations without prepayment penalties. Realized gains and losses on sales of available-for-sale securities were immaterial in fiscal years 1999, 1998, and 1997. The cost of securities sold is based on the specific identification method.

NOTE 3. INCOME TAXES
The provision for income taxes consists of the following:

(In thousands)	Fiscal year ended January 31,		
	1999	1998	1997
Federal:			
Current	$ 30,522	$ 31,749	$ 5,546
Deferred	7,216	(7,978)	1,133
State:			
Current	3,600	5,594	4,796
Deferred	1,078	(1,398)	(1,148)
Foreign:			
Current	12,480	14,083	15,503
Deferred	1,025	(2,415)	(889)
	$ 55,921	$ 39,635	$ 24,941

The principal reasons that the aggregate income tax provisions differ from the U.S. statutory rate of 35 percent are as follows:

(In thousands)	Fiscal year ended January 31,		
	1999	1998	1997
Income tax provision at statutory rate	$ 51,296	$ 29,682	$ 23,279
Foreign income taxed at rates different from the U.S. statutory rate	(4,197)	(1,005)	(1,644)
State income taxes, net of federal benefit	3,041	2,727	2,371
Tax-exempt interest	(2,087)	(2,031)	(1,348)
Acquired in-process research and development	3,973	6,720	1,130
Goodwill amortization	4,005	3,597	695
Other	(110)	(55)	458
	$ 55,921	$ 39,635	$ 24,941

Significant sources of the Company's deferred tax assets and liabilities are as follows:

(In thousands)	January 31,	
	1999	1998
Accrued state income taxes	$ 410	$ 5,667
Accrued legal judgment, including accrued interest	1,598	13,863
Reserves for product returns and bad debts	6,902	9,728
Accrued compensation and benefits	4,705	3,809
Purchased technology and capitalized software	13,580	11,079
Unremitted earnings of certain subsidiaries	(6,018)	(6,018)
Fixed assets	4,389	(693)
Other, net	5,796	3,443
Net deferred tax assets	$ 31,362	$ 40,878

The tax benefit associated with dispositions from employee stock plans reduced taxes currently payable for fiscal years 1999, 1998, and 1997 by $15,469,000, $16,230,000, and $2,578,000, respectively. No provision has been made for federal income taxes on unremitted earnings of certain of the Company's foreign subsidiaries (cumulative $251 million at January 31, 1999) because the Company plans to reinvest all such earnings for the foreseeable future. At January 31, 1999, the unrecognized deferred tax liability for these earnings was approximately $72.0 million. Foreign pretax income was $97.1 million, $55.1 million, and $45.0 million in fiscal years 1999, 1998, and 1997, respectively.

The Company's United States income tax returns for fiscal years ended January 31, 1992 through 1996, are under examination by the Internal Revenue Service. On August 27, 1997, the Internal Revenue Service issued a Notice of Deficiency proposing increases to the amount of the Company's United States 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. Management believes that adequate amounts have been provided for any adjustments that may ultimately result from these examinations.

Cash payments for income taxes were approximately $17,236,000, $33,272,000, and $13,605,000 for fiscal years 1999, 1998, and 1997, respectively.

NOTE 4. LITIGATION ACCRUAL REVERSAL

In December 1994, a $25.5 million judgment was entered into against the Company on a claim of trade-secret misappropriation brought by Vermont Microsystems, Inc. ("VMI"). The initial judgment and related expenses were accrued in fiscal year 1995, as well as interest expense in subsequent periods in accordance with this judgment. The Company was required by statute to post collateral approximating the amount of the initial judgment plus accrued interest. In May 1997, the escrow account was reduced to $17.3 million, with interest to accrue. At January 31, 1998, the Company's long-term marketable securities included a balance of $18.0 million, which was restricted as to its use until final adjudication of the matter.

The Company appealed the decision, and in May 1998, final judgment was entered in the VMI litigation in the amount of $7.8 million plus accrued interest. Following entry of judgment, the Company made a final payment of approximately $8.4 million, including interest to VMI. During the second quarter of fiscal year 1999, the Company recognized $18.2 and $2.7 million as operating income and interest income, respectively, to reflect the remaining unutilized litigation and related interest accruals.

NOTE 5. COMMITMENTS AND CONTINGENCIES

The Company leases office space and equipment under noncancelable lease agreements. The leases generally provide that the Company pay taxes, insurance, and maintenance expenses related to the leased assets. Future minimum lease payments for fiscal years ended January 31 are as follows: $21.7 million in 2000; $17.1 million in 2001; $11.4 million in 2002; $9.2 million in 2003; $5.9 million in 2004; and $19.2 million thereafter.

Rent expense was $23,238,000, $17,729,000, and $17,358,000 in fiscal years 1999, 1998, and 1997, respectively.

The Company has a line of credit permitting short-term, unsecured borrowings of up to $40 million, which may be used from time to time to facilitate short-term cash flow. There were no borrowings under this agreement at January 31, 1999, which expires in January 2000.

The Company is a party to various legal proceedings arising from the normal course of business activities. In management's opinion, resolution of these matters is not expected to have a material adverse impact on the Company'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 the Company's future results of operations or cash flows in a particular period.

NOTE 6. EMPLOYEE BENEFIT PLANS

Stock option plans

Under the Company's stock option plans, incentive and nonqualified stock options may be granted to officers, employees, directors, and consultants to purchase shares of the Company's common stock. Options vest over periods of one to five years and generally have terms of up to ten years. The exercise price of the stock options is determined by the Company's Board of Directors on the date of grant and is at least equal to the fair market value of the stock on the grant date.

(Shares in thousands)

	Number of shares	Price per share	Weighted average price per share
Options outstanding at January 31, 1996	$ 8,691	$ 13.38 - $ 49.25	$ 28.75
Granted	5,271	0.01 - 42.00	29.99
Exercised	(651)	0.01 - 38.25	19.66
Canceled	(598)	16.25 - 49.25	36.98
Options outstanding at January 31, 1997	12,713	$ 0.01 - $ 49.25	$ 28.11
Granted	3,411	0.01 - 48.38	34.62
Assumed via acquisitions	306	0.34 - 36.40	23.72
Exercised	(2,304)	0.01 - 49.25	23.15
Canceled	(908)	13.38 - 49.25	33.22
Options outstanding at January 31, 1998	13,218	$ 0.01 - $ 49.25	$ 30.20
Granted	3,061	0.01 - 47.94	36.76
Exercised	(2,499)	0.01 - 49.25	25.22
Canceled	(909)	13.38 - 49.25	35.66
Options outstanding at	12,871	$ 0.01 - $ 49.25	$ 32.34
Options exercisable at January 31, 1999	6,498	$ 0.01 - $ 49.25	$ 30.34
Options available for grant at January 31, 1999	2,772		

The following table summarizes information about options outstanding at January 31, 1999.

	Number of shares (in thousands)	Outstanding options weighted average contractual life (in years)	Weighted average exercise price
Range of per share exercise prices:			
$ 0.01 - $ 24.75	3,665	4.87	$ 21.29
$ 25.38 - $ 36.50	4,838	7.46	$ 31.73
$ 36.75 - $ 49.25	4,368	8.30	$ 42.29
	12,871	7.01	$ 32.34

The following table summarizes information about options outstanding and exercisable at January 31, 1999.

	Number of shares (in thousands)	Weighted average exercise price
Range of per share exercise prices:		
$ 0.01-$ 24.75	2,600	$ 20.19
$ 25.38-$ 36.50	2,131	$ 30.68
$ 36.75-$ 49.25	1,767	$ 44.88

6,498	$	30.34

These options will expire if not exercised at specific dates ranging from February 1999 to January 2009. Prices for options exercised during the three-year period ended January 31, 1999, range from $0.01 to $49.25.

A total of 17.3 million shares of the Company's common stock have been reserved for future issuance under existing stock option programs.

Employee stock purchase plan

The Company has an employee stock purchase plan ("plan") for all employees meeting certain eligibility criteria. Under the plan, eligible employees may purchase shares of the Company's common stock, at their discretion up to 15 percent of their compensation subject to certain limitations, at not less than 85 percent of fair market value as defined in the plan. A total of 2,000,000 shares have been reserved for issuance under the plan plus an annual increase as defined in the plan document. In fiscal years 1999, 1998, and 1997, shares totaling 620,000, 490,000, and 323,000, respectively, were issued under the plan at average prices of $22.77, $21.99, and $24.56 per share. At January 31, 1999, a total of 2,653,000 shares were available for future issuance under the plan.

Pro forma information

The Company has elected to follow APB Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for its employees' stock options because, as discussed below, the alternative fair value accounting provided for under SFAS No. 123, "Accounting for Stock-Based Compensation," requires the use of option valuation models that were not developed for use in valuing employee stock options. Under APB No. 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized in the Company's financial statements.

Pro forma information regarding net income and net income per share is required by SFAS No. 123. This information is required to be determined as if the Company had accounted for its employee stock options (including shares issued under the employee stock purchase plan, collectively called "options") granted subsequent to January 31, 1995, under the fair value method of that statement. The fair value of options granted in 1999, 1998, and 1997 reported below has been estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	Employee stock options			Employee stock purchase plan		
	1999	1998	1997	1999	1998	1997
Expected life (in years)	2.8	2.6	2.7	0.5	0.5	0.5
Risk-free interest rate	5.2%	6.1%	6.1%	5.1%	5.4%	5.5%
Volatility	0.56	0.52	0.42	0.63	0.50	0.45
Dividend yield	0.7%	0.6%	0.8%	0.7%	0.6%	0.8%

The weighted average estimated fair value of employee stock options granted during fiscal years 1999, 1998, and 1997 was $15.10, $13.50, and $8.34 per share, respectively. The weighted average estimated fair value of shares granted under the employee stock purchase plan during fiscal years 1999, 1998, and 1997 was $9.11, $7.17, and $8.01, respectively.

For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma net income for 1999, 1998, and 1997 was $50,541,000, $7,868,000, and $15,343,000, respectively. Pro forma basic net income per share was $1.08, $0.17, and $0.34 in fiscal years 1999, 1998, and 1997, respectively. Pro forma diluted net income per share were $1.03, $0.16, and $0.30, respectively.

These pro forma amounts include amortized fair values attributed to options granted after January 31, 1995 only, and therefore are not likely to be representative of future pro forma amounts.

Pretax savings plan

The Company has a pretax savings plan covering nearly all U.S. employees that qualify under Section 401(k) of the Internal Revenue Code. Eligible employees may contribute up to 20 percent of their pretax salary, subject to certain limitations. The Company makes voluntary contributions and matches a portion of employee contributions. Company contributions, which may be terminated at the Company's discretion, were $4,623,000, $4,103,000, and $3,068,000 in fiscal years 1999, 1998, and 1997, respectively.

The Company provides defined-contribution plans in certain foreign countries where required by statute. The Company's funding policy for foreign defined-contribution plans is consistent with the local requirements in each country. Company contributions to these plans during fiscal years 1999 and 1998 were $1,654,000 and $1,376,000, respectively. Company contributions to these plans in fiscal year 1997 were not significant.

NOTE 7. STOCKHOLDERS' EQUITY

Preferred stock
The Company's Certificate of Incorporation authorizes 2 million shares of preferred stock, and as of January 31, 1999, none was issued or outstanding. The Board of Directors has the authority to issue the preferred stock in one or more series and to fix rights, preferences, privileges and restrictions, including dividends, and the number of shares constituting any series or the designation of such series, without any further vote or action by the stockholders.

Common stock repurchase program
During fiscal years 1999, 1998, and 1997, the Company repurchased and retired a total of 600,000, 2,332,500, and 1,659,500 shares of its common stock at average repurchase prices of $42.56, $38.39, and $32.44, respectively, pursuant to an ongoing and systematic repurchase plan ("Systematic Plan") approved by the Company's Board of Directors to reduce the dilutive effect of common shares to be issued under the Company's employee stock plans. In December 1997, the Board of Directors authorized the purchase of an additional 4 million shares under the Systematic Plan.

In August 1996, Autodesk announced another stock repurchase program for the purchase of up to 5 million shares of common stock in open market transactions as market and business conditions warranted -- the "Supplemental Plan." In December 1997, the Board of Directors authorized the purchase of an additional 5 million shares under the Supplemental Plan. The Company could utilize equity options as part of the Supplemental Plan.

In connection with the Supplemental Plan, the Company sold put warrants to an independent third party in September 1996 and purchased call options from the same independent third party. The premiums received with respect to the equity options equaled the premiums paid. Consequently, there was no exchange of cash. The Company exercised the call options, repurchasing 2,000,000 shares of its common stock during the third quarter of fiscal year 1998 for $51 million. The put warrants expired unexercised in September 1997 and were reclassified from put warrants to stockholders' equity during the third quarter of fiscal year 1998. During fiscal years 1999, 1998, and 1997, the Company repurchased and retired a total of 545,000, 1,000,000, and 557,500 shares of its common stock at average repurchase prices of $42.81, $34.37, and $24.09, respectively, subject to the Supplemental Plan.

In December 1997, the Company sold put warrants to an independent third party that entitled the holder of the warrants to sell 1.5 million shares of common stock to the Company at $38.12 per share. Additionally, the Company purchased call options from the same independent third party that entitled the Company to buy 1 million shares at $39.88 per share. The premiums received with respect to the equity options totaled $4.5 million and equaled the premiums paid. Consequently, there was no exchange of cash. The outstanding put warrants at January 31, 1998, permitted a net share settlement at the Company's option. In March 1998, the Company exercised the call option, electing the net share settlement option, and retired approximately 97,000 shares of its common stock. The put warrants expired unexercised.

In connection with the acquisition of Discreet Logic Inc. (see Note 12), in August 1998, the Autodesk Board of Directors rescinded its authorization and terminated the Company's repurchase plans.

NOTE 8. SEGMENTS
During the fiscal year ended January 31, 1999, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 establishes standards for reporting information about a company's operating segments. Prior year amounts have been restated to conform to the current year's presentation.

Management identified the Company's reportable segments based on differences in customer type and distribution method. The Company operates in three segments -- the Design Solutions segment (consisting of the MCAD, AECAD, and GIS market groups), the Personal Solutions Group ("PSG"), and Kinetix. The Design Solutions segment derives revenues from the sales of design software products whose end users include architects, engineers, construction firms, designers, and drafters. The Personal Solutions Group develops and sells design software products for professionals, occasional users, or consumers who design, draft, and diagram. Finally, Kinetix derives revenues from the sale of multimedia products to animation professionals. All segments primarily distribute their respective products through authorized dealers and distributors. The PSG segment also sells its products directly through telemarketing and the Internet.

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 is as follows:

(In millions)	Fiscal year ended January 31,		
	1999	1998	1997
Net revenues:			
Design Solutions	$ 575.2	$ 494.3	$ 388.0
Personal Solutions Group	122.9	89.7	79.2
Kinetix	42.1	33.1	29.5
	$ 740.2	$ 617.1	$ 496.7

(In millions)	Fiscal year ended January 31,		
	1999	1998	1997
Income (loss) from operations:			
Design Solutions	$ 310.3	$ 267.6	$ 241.0
Personal Solutions Group	84.1	53.3	50.5
Kinetix	10.4	(2.4)	(0.6)
Unallocated amount /1/	(271.8)	(243.3)	(231.1)
	$ 133.0	$ 75.2	$ 59.8
Depreciation and amortization:			
Design Solutions	$ 37.2	$ 22.6	$ 19.2
Personal Solutions Group	2.2	0.3	--
Kinetix	4.5	7.3	1.2
Unallocated amounts	19.3	19.7	14.4
	$ 63.2	$ 49.9	$ 34.8

/1/Unallocated amounts in fiscal year 1999 are attributed primarily to corporate expenses of $110.3 million, other geographic costs and expenses which are managed outside the reportable segments of $174.2 million, and nonrecurring income of $12.7 million. Fiscal year 1998 unallocated amounts are primarily related to corporate expenses of $76.6 million and other geographic costs and expenses not allocated to specific segments of $166.7 million. Fiscal year 1997 amounts pertain to corporate expenses of $78.7 million and other geographic costs and expenses of $152.4 million.

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

(In millions)	Fiscal year ended January 31, 1999	1998	1997
Net revenues:			
United States customers	$ 298.8	$ 251.7	$ 163.3
Other Americas	48.3	36.7	24.1
Total Americas	347.1	288.4	187.4
Europe	287.2	208.3	189.1
Asia Pacific	105.9	120.4	120.2
Total net revenues	$ 740.2	$ 617.1	$ 496.7

(In millions)	January 31, 1999	1998
Long-lived assets:1		
United States operations	$ 127.9	$ 162.0
Other Americas	0.2	0.2
Total Americas	128.1	162.2
Neuchatel, Switzerland	37.7	3.4
Other Europe	5.9	4.2
Total Europe	43.6	7.6
Asia Pacific	6.0	6.7
Consolidating eliminations	(12.0)	(39.3)
Total long-lived assets	$ 165.7	$ 137.2

/1/Per SFAS 131, long-lived assets exclude financial instruments and deferred tax assets. As such, marketable securities and deferred taxes have been excluded above.

NOTE 9. COMPREHENSIVE INCOME

As of February 1, 1998, the Company adopted Financial Accounting Standards Board Statement No. 130, "Reporting Comprehensive Income" ("SFAS 130"), which establishes new rules for the reporting and display of comprehensive income and its components; however, the adoption of this statement had no impact on the Company's net income or stockholders' equity. SFAS 130 requires unrealized gains or losses on the Company's available-for-sale securities and the foreign currency translation adjustments, which prior to adoption were reported separately in stockholders' equity, to be included in other comprehensive income. Prior year financial statements have been reclassified to conform to the requirements of SFAS 130.

The components of total accumulated other comprehensive income in the balance sheet are as follows:

(In thousands)	January 31, 1999	1998
Unrealized gains on available-for-sale securities, net of tax	$ 775	$ 577
Foreign currency translation adjustment	(10,154)	(16,655)

Total accumulated other comprehensive income	$ (9,379)	$ (16,078)

The related income tax effects allocated to each component of other comprehensive income are as follows:

(In thousands)

	Amount before taxes	Income tax (expense) benefit	Amount net of taxes
Fiscal year 1999			
Unrealized gains on securities			
Unrealized gains on available-for-sale securities	$ 18	$ (6)	$ 12
Less: reclassification adjustment for losses realized in net income	(269)	83	(186)
Net unrealized gains	$ 287	$ (89)	$ 198
Foreign currency translation adjustments	6,501	--	6,501
Total other comprehensive income	$ 6,788	$ (89)	$ 6,699
Fiscal year 1998			
Net unrealized gains on available-for-sale securities	$ 565	$ (203)	$ 362
Foreign currency translation adjustments	(6,591)	--	(6,591)
Total other comprehensive loss	$ (6,026)	$ (203)	$ (6,229)
Fiscal year 1997			
Net unrealized losses on available-for-sale securities	$ (660)	$ 234	$ (426)
Foreign currency translation adjustments	(20,518)	--	(20,518)
Total other comprehensive loss	$ (21,178)	$ 234	$ (20,944)

NOTE 10. NONRECURRING CHARGES

Acquisition

On May 4, 1998, the Company entered into an agreement with Genius CAD Software GmbH ("Genius"), a German limited liability company, to purchase various mechanical CAD software applications and technologies (the "acquisition"). In consideration for this acquisition, the Company paid Genius approximately $69 million in cash. The acquisition has been accounted for using the purchase method of accounting with the purchase price being allocated as follows:

(In thousands)

Inventory	$ 200
Net fixed assets	200
Purchased in-process research and development charged to operations in the quarter ended July 31, 1998	13,100
Purchased technology	12,700
Assembled work force	1,100
Goodwill	41,600
Total purchase consideration	$ 68,900

Amortization of these purchased intangibles is provided on the straight-line basis over the respective useful lives of the assets, ranging from three to seven years. The operating results of Genius, which have not been material in relation to those of the Company, have been included in Autodesk's consolidated financial statements from the acquisition date.

In-process research and development Management estimates that $13.1 million of the purchase price represents purchased in-process technology that has not yet reached technological feasibility and has no alternative future use. Accordingly, this amount was expensed in the second quarter of fiscal year 1999 following consummation of the acquisition. The value assigned to purchased in-process technology was determined by identifying research projects in areas for which technological feasibility had not been achieved. The calcula-tions of value were adjusted to reflect the value creation efforts of Genius prior to the close of the acquisition. The value was determined by estimating the costs remaining to develop the purchased in-process technology into commercially viable products, estimating the resulting net cash flows from such projects, and discounting the net cash flows back to their present value. The discount rate included a factor that took into account the uncertainty surrounding the successful development of the purchased in-process technology projects.

Purchased technology

To determine the value of the purchased technology ($12.7 million), the expected future cash flows of the existing developed technologies were discounted taking into account the characteristics and applications of the product, the size of existing markets, growth rates of existing and future markets, as well as an evaluation of past and anticipated product-life cycles.

Assembled work force

To determine the value of the assembled work force ($1.1 million), the Company evaluated the work force in place at the acquisition date and utilized the cost approach to estimate the value of replacing the work force. Costs considered in replacing the work force included costs to recruit and interview candidates, as well as the cost to train new employees.

OTHER NONRECURRING CHARGES

During the second quarter of fiscal year 1999, Autodesk 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 current 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).

PRIOR YEAR TRANSACTIONS

On March 31, 1997, the Company exchanged 2.9 million shares of its common stock for all of the outstanding stock of Softdesk, Inc. ("Softdesk"). Softdesk is a leading supplier of AutoCAD-based applications software for the architecture, engineering, and construction market. Based on the value of Autodesk stock and options exchanged, the transaction, including transactions costs, was valued at approximately $94.1 million.

The purchase consideration was allocated to the acquired assets and assumed liabilities based on fair values as follows:

(In thousands)	
Accounts receivables and other current assets	$ 15,600
Net fixed assets	3,200
Other long-term assets	4,000
Purchased in-process research and development charged to operations in the quarter ended April 30, 1997	19,200
Purchased technologies and other intangible assets	15,900
Goodwill	48,000
Liabilities assumed	(7,800)
Deferred tax liability	(4,000)
Total purchase consideration	$ 94,100

Purchased in-process research and development Management estimated that $19.2 million of the purchase price represented purchased in-process technology that had not yet reached technological feasibility and had no alternative future use. Accordingly, this amount was expensed in the first quarter of fiscal year 1998 following consummation of the acquisition. The value assigned to purchased in-process technology was determined by identifying research projects in areas for which technological feasibility had not been achieved. The value was determined by estimating the costs to develop the purchased in-process technology into commercially viable products, estimating the resulting net cash flows from such projects, and discounting the net cash flows back to their present value. The discount rate included a factor that took into account the uncertainty surrounding the successful development of the purchased in-process technology projects.

Purchased technology
To determine the value of the purchased technology ($9.2 million), the expected future cash flows of the existing developed technologies were discounted taking into account the characteristics and applications of the product, the size of existing markets, growth rates of existing and future markets, as well as an evaluation of past and anticipated product-life cycles.

In the first quarter of fiscal year 1998, the Company also acquired certain assets of and licensed technology from 3D/Eye for $5.8 million. Of the total cost, $3.0 million represented the value of in-process research and development that had not yet reached technological feasibility and had no alternative future use and was charged to operations.

FISCAL YEAR 1997 TRANSACTIONS
During fiscal year 1997, the Company acquired certain businesses for an aggregate of $9.9 million. Included in these acquisitions were the purchases of assets from Creative Imaging Technologies, Inc. ("CIT"), CadZooks, Inc., Argus Technologies, Inc. ("Argus"), as well as the outstanding stock of Teleos Research ("Teleos"). The purchase consideration was allocated to the acquired assets and liabilities based on fair values as follows:

(In thousands)

Accounts receivables and other current assets	$ 225
Net fixed assets	243
Other long-term assets	37
Purchased in-process research and development charged to operations in fiscal year 1997	4,738
Purchased technologies and other intangible assets	3,213
Goodwill	2,528
Liabilities assumed	(1,077)
Total purchase consideration	$ 9,907

Amortization of these purchased technologies and other intangibles is provided on a straight-line basis over the respective useful lives of the assets ranging from three to seven years. The operating results of these acquisitions, which have not been material in relation to those of Autodesk, have been included in the consolidated financial statements from the respective acquisition dates.

Approximately $3.2 million of the Teleos purchase price and $1.5 million of the Argus purchase price represented the value of in-process research and development that had not yet reached technological feasibility and had no alternative future use. These amounts were charged to operations during fiscal year 1997 and classified as nonrecurring charges in the accompanying statement of income.

NOTE 11. RESTRUCTURING CHARGES
During the second quarter of fiscal year 1999, the Company's management approved restructuring plans, which include initiatives to address current economic conditions in the Asia Pacific region, consolidate duplicative facilities, and reduce overhead. These plans resulted in a charge of $5.4 million, which is included in nonrecurring charges in the fiscal year 1999 Consolidated Statement of Income (see Note 10). This includes $2.3 million for the cost of involuntary employee separation benefits relating to approximately 87 employees. Employee separation benefits include severance, medical, and other benefits. Employee separation will affect certain engineers and sales and marketing employees. The remaining charge of $3.1 million relates to other exit costs, namely the write-off of purchased technologies, lease termination buyout costs, the disposal of fixed assets in these regions, and professional fees. As of January 31, 1999, the number of employee separations due to restructuring actions was 80 and actual employee termination benefit payments of approximately $1.8 million have been made. During the fourth quarter, Autodesk reduced the restructuring accrual by approximately $0.3 million to reflect higher than expected attrition rates. Most of the restructuring actions were completed as of January 31, 1999.

NOTE 12. SUBSEQUENT EVENTS

Acquisition
On March 16, 1999, the Company acquired Discreet Logic Inc. ("Discreet"), in a business combination accounted for as a pooling of interests. In the acquisition, Autodesk acquired all of the voting stock of Discreet, a company that develops, assembles, markets, and supports nonlinear digital systems and

software for creating, editing, and compositing imagery and special effects for film, video, and HDTV, and issued 0.33 shares of the Company's common stock, or 0.33 exchangeable shares (which can be exchanged, at the holder's election, for one share of the Company's common stock), for each outstanding share of Discreet. The transaction resulted in the issuance of an aggregate of approximately 10 million shares of Autodesk common stock and exchangeable shares.

For Autodesk and Discreet pro forma purposes, Autodesk's historical condensed consolidated statements of income for the fiscal years ended January 31, 1999, 1998, and 1997, have been combined with the condensed consolidated statements of operations of Discreet for the 12 months ended December 31, 1998, the fiscal year ended June 30, 1998, and the 11 months ended June 30, 1997. Operating results for the period from January 1, 1998, to June 30, 1998, for Discreet are duplicated in the pro forma consolidated statement of income of the combined operating results for the years ended January 31, 1999 and 1998.

The following unaudited pro forma data summarizes the combined operating results of the Company and Discreet as if the acquisition had occurred at the beginning of the periods presented.

(In thousands, except per share amounts)	Fiscal year ended January 31,		
	1999	1998	1997
Net revenues	$ 871,879	$ 768,684	$ 598,617
Net income	97,132	56,215	42,247
Basic net income per share	1.72	1.00	0.77
Diluted net income per share	1.64	0.94	0.74

Follow-on offering

In order to qualify for pooling of interests treatment in the Discreet acquisition, prior to the closing of the acquisition, Autodesk completed a follow-on offering of 3,000,000 shares of common stock at $41 per share.

NOTE 13. QUARTERLY FINANCIAL INFORMATION (UNAUDITED) Summarized quarterly financial information for fiscal years 1999, 1998, and 1997 is as follows:

(In thousands, except per share data)	1st quarter	2nd quarter	3rd quarter	4th quarter	Fiscal year
Fiscal year 1999					
Net revenues	$ 187,206	$ 186,638	$ 177,178	$ 189,145	$ 740,167
Gross margin	167,375	168,071	158,928	169,429	663,803
Income from operations	37,827	33,040	26,627	35,543	133,037
Net income	25,815	21,317	18,374	25,133	90,639
Basic net income per share	0.56	0.46	0.40	0.53	1.94
Diluted net income per share	0.51	0.43	0.39	0.50	1.85
Fiscal year 1998					
Net revenues	$ 118,984	$ 154,096	$ 162,195	$ 181,851	$ 617,126
(restated)	102,895	135,227	144,539	163,127	545,788
Income (loss) from operations (restated)	(18,488)	23,624	28,298	41,728	75,162
Net income (loss) (restated)	(17,437)	15,990	19,128	27,490	45,171
Basic net income (loss) per share (restated)	(0.38)	0.33	0.41	0.60	0.97
Diluted net income (loss) per share (restated)	(0.38)	0.31	0.37	0.56	0.91

Fiscal year 1997					
Net revenues	$ 136,281	$ 128,745	$ 116,647	$ 115,020	$ 496,693
Gross margin	118,989	112,123	101,427	99,937	432,476
Income from operations	28,125	17,123	7,502	7,067	59,817
Net income	19,060	10,645	5,873	5,993	41,571
Basic net income per share	0.41	0.23	0.13	0.13	0.91
Diluted net income per share	0.39	0.22	0.13	0.13	0.88

Results for the second quarter of fiscal year 1999 included nonrecurring charges of approximately $22.0 million representing the value of in-process research and development that had not yet reached technological feasibility and had no alternative future use ("IPR&D") acquired in the Genius acquisition and other nonrecurring charges. (See Note 10 for further information.) These charges resulted in a reduction in diluted net income per share of $0.36 in the second quarter. Results for the first quarter of fiscal year 1998 included nonrecurring charges of approximately $19.2 million and $3.0 million, respectively, representing the value of IPR&D acquired in the Softdesk and 3D/Eye transactions. These charges resulted in a reduction in diluted net income per share of $0.46 in the first quarter of fiscal year 1998. Results for the second and third fiscal quarters of fiscal year 1997 included nonrecurring charges of $3.2 million and $1.5 million, respectively, related to IPR&D acquired in the Teleos and Argus acquisitions that had not yet reached technological feasibility and had no alternative future use. These charges resulted in an $0.08 and $0.02 reduction in diluted net income per share in the second and third quarters of fiscal year 1997, respectively.

REPORT OF ERNST & YOUNG LLP,
INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Autodesk, Inc.

We have audited the accompanying consolidated balance sheets of Autodesk, Inc., as of January 31, 1999 and 1998, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended January 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Autodesk, Inc., at January 31, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 31, 1999, in conformity with generally accepted accounting principles.

As discussed more fully in Note 1, the Company has modified the methods used to value acquired in-process research and development recorded and written off in connection with the Company's March 1997 acquisition of Softdesk, Inc., and, accordingly, has restated the consolidated financial statements for the fiscal year ended January 31, 1998, to reflect this change.

/s/ Ernst & Young LLP

San Jose, California
February 22, 1999,
except for Note 12, as to which the date is
March 16, 1999

EXHIBIT 21.1

SUBSIDIARIES OF AUTODESK, INC.

The Registrant owns 100% of the outstanding voting securities of the following corporations, as of April 22, 1999, all of which are included in the Registrant's consolidated financial statements:

Name	Jurisdiction of Incorporation
Autodesk (Europe) S.A.	Switzerland
Autodesk AB	Sweden
Autodesk AG	Switzerland
Autodesk de Argentina S.A.	Argentina
Autodesk Asia Pte. Ltd.	Singapore
Autodesk Australia Pty. Ltd.	Australia
Autodesk do Brazil Ltda	Brazil
Autodesk B.V.	Netherlands
Autodesk Canada, Inc.	Canada
Autodesk Development Africa (Pty) Ltd.	Republic of South Africa
Autodesk Development B.V.	Netherlands
Autodesk Development Canada Ltd.	Canada
Autodesk Development S.a r.l.	Switzerland
Autodesk (EMEA) S.A.	Switzerland
Autodesk Far East Ltd.	Hong Kong
Autodesk GesmbH	Austria
Autodesk GmbH	Germany
Autodesk India Pte. Ltd.	India
Autodesk International Holding Co.	Delaware
Autodesk International Ltd.	Barbados
Autodesk Ireland Ltd.	Ireland
Autodesk Korea Ltd.	Korea
Autodesk Ltd.	United Kingdom
Autodesk Ltd. Japan	Japan
Autodesk de Mexico S.A. de C.V.	Mexico
Autodesk CIS (ZAO)	Russia-C.I.S.
Autodesk S.A. (Spain)	Spain
Autodesk S.A.	France
Autodesk S.p.A.	Italy
Autodesk Software Lda	Portugal
Autodesk Spol. s.r.o	Czech Republic
Autodesk, Taiwan Ltd.	Taiwan
Autodesk de Venezuela, C.A.	Venezuela
Foresight Resources Corporation	Missouri
Teleos Research	California
Discreet Logic, Inc.	Canada
Discreet Logic - USA, Inc.	Delaware
Bandit Communications, Inc.	Delaware
D-Vision Systems, Inc.	Illinois
Lightscape Technologies, Inc.	Delaware
Discreet Logic (Desktop), Inc.	Barbados
Discreet Logic Asia-Pacific Pte, Ltd.	Singapore
Discreet Logic KK	Japan
Discreet Logic (Brazil) Industria e Comercio Ltda	Brazil
Discreet Logic Europe S.A.	Luxembourg
Discreet Logic France SARL	France
Discreet Logic (UK) Ltd.	United Kingdom
Discreet Logic GmbH	Germany

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90,639
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1.85

For purposes of this exhibit, primary means basic.