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

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FORM 10-Q/A  
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(Mark One)

X Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange  
- - - Act of 1934

FOR THE PERIOD ENDED OCTOBER 31, 1996

OR

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

COMMISSION FILE NUMBER: 0-14338

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

DELAWARE 94-2819853  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

111 MCINNIS PARKWAY  
SAN RAFAEL, CALIFORNIA 94903  
(Address of principal executive offices)

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

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days:

Yes X No  
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As of December 13, 1996, there were 44,882,000 shares of the Registrant's  
Common Stock outstanding.

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AUTODESK, INC.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Three months ended October 31,		Nine months ended October 31,	
	1996	1995	1996	1995
Revenues	\$119,735	\$131,779	\$391,542	\$417,503
Direct commissions	3,088	3,242	9,869	9,622
Net revenues	116,647	128,537	381,673	407,881
Costs and expenses:				
Cost of revenues	15,220	16,118	49,134	50,765
Marketing and sales	50,233	46,246	150,125	137,144
Research and development	23,662	19,584	69,471	58,246
General and administrative	18,521	18,543	55,455	56,375
Charge for acquired in-process research and development	1,509	-	4,738	-
	109,145	100,491	328,923	302,530
Income from operations	7,502	28,046	52,750	105,351
Interest and other income, net	1,604	2,201	4,471	7,252
Income before income taxes	9,106	30,247	57,221	112,603
Provision for income taxes	3,233	11,040	21,643	41,120
Net income	\$ 5,873	\$ 19,207	\$ 35,578	\$ 71,483
Net income per share	\$ .13	\$ .38	\$ .75	\$ 1.41
Shares used in computing net income per share	45,410	50,180	47,480	50,520

See accompanying notes.

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

	October 31, 1996	January 31, 1996
	(Unaudited)	(Audited)
Current assets:		
Cash and cash equivalents	\$ 87,759	\$129,305
Marketable securities	72,842	64,001
Accounts receivable, net	86,384	93,919
Inventories	9,012	9,685
Deferred income taxes	26,791	33,769
Prepaid expenses and other current assets	16,086	17,155
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Total current assets	298,874	347,834
	-----	-----
Marketable securities, including a restricted balance of \$28,000 at October 31, 1996 and January 31, 1996	93,265	79,096
Computer equipment, furniture, and leasehold improvements:		
Computer equipment and furniture	104,574	106,643
Leasehold improvements	19,574	21,100
Accumulated depreciation	(75,794)	(78,778)
	-----	-----
Net computer equipment, furniture, and leasehold improvements	48,354	48,965
Capitalized software and purchased technologies	17,768	22,141
Other assets	18,902	19,893
	-----	-----
	\$477,163	\$517,929
	=====	=====

See accompanying notes.

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

	October 31, 1996	January 31, 1996
	(Unaudited)	(Audited)
Current liabilities:		
Accounts payable	\$ 22,486	\$ 24,547
Accrued compensation	18,258	22,441
Accrued income taxes	62,774	65,517
Other accrued liabilities	34,082	31,790
Total current liabilities	137,600	144,295
Deferred income taxes	275	1,912
Litigation accrual	29,021	27,640
Other liabilities	1,907	1,754
Put warrants	64,500	-
Stockholders' equity:		
Common stock	141,472	140,765
Retained earnings	103,640	191,109
Foreign currency translation adjustment	(1,252)	10,454
Total stockholders' equity	243,860	342,328
	\$477,163	\$517,929

See accompanying notes.

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

	Nine months ended October 31,	
	1996	1995
Operating activities		
Net income	\$ 35,578	\$ 71,483
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	24,998	20,195
Charge for acquired in-process research and development	4,738	-
Changes in operating assets and liabilities, net of business combinations	6,960	(9,629)
Net cash provided by operating activities	72,274	82,049
Investing activities		
Purchases of available-for-sale marketable securities, net	(23,010)	(55,141)
Purchases of computer equipment, furniture and leasehold improvements	(15,304)	(13,987)
Business combinations, net of cash acquired	(9,653)	(7,194)
Capitalization of software costs and other	(8,338)	16,936
Net cash used in investing activities	(56,305)	(59,386)
Financing activities		
Proceeds from issuance of common stock	17,643	44,419
Repurchase of common stock	(67,045)	(81,314)
Dividends paid	(8,113)	(8,498)
Net cash used in financing activities	(57,515)	(45,393)
Net decrease in cash and cash equivalents	(41,546)	(22,730)
Cash and cash equivalents at beginning of year	129,305	195,038
Cash and cash equivalents at end of quarter	\$ 87,759	\$172,308

See accompanying notes.

AUTODESK, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. The condensed consolidated financial statements at October 31, 1996 and for the three- and nine-month periods then ended are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, together with management's discussion and analysis of financial condition and results of operations, contained in the Company's Annual Report to Stockholders incorporated by reference in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1996. The results of operations for the three and nine months ended October 31, 1996 are not necessarily indicative of the results for the entire fiscal year ending January 31, 1997.
2. During the nine months ended October 31, 1996, the Company acquired assets from Creative Imaging Technologies, Inc. ("CIT"), CadZooks, Inc., Argus Technologies, Inc. ("Argus"), as well as the outstanding stock of Teleos Research ("Teleos"). The aggregate cash purchase price for these four transactions was \$9.7 million. These acquisitions were accounted for using the purchase method of accounting with the purchase price being principally allocated to capitalized software, purchased technologies, and intangible assets. 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 the nine-month period ended October 31, 1996. Additional consideration may also be payable to the former shareholders of CIT, Argus, and Teleos based on product milestones and operating results which are expected to be allocated to intangible assets and amortized on a straight-line basis over two-to-five year periods.

The operating results of the acquired entities, which have not been material in relation to those of the Company, have been included in the consolidated financial results from their respective acquisition dates.

3. In August 1996, the Company announced a stock repurchase program under which the Company may purchase up to 5 million shares of common stock in open market transactions as market and business conditions warrant. The Company may also utilize equity options as part of its repurchase program. This program is in addition to shares previously reserved pursuant to an on-going and systematic repurchase plan to reduce the dilutive effect of common stock to be issued under the Company's stock option plans.

In connection with the new repurchase program, the Company sold put warrants to an independent third party in September 1996 that entitle the holder of the warrants to sell 3 million shares of common stock to the Company at \$21.50 per share. Additionally, the Company purchased call options that entitle the Company to buy 2 million shares of its common stock at \$25.50 per share. The put warrants and call options expire in September 1997. The premiums received with respect to the equity options totaled \$8.1 million and equaled the premiums paid. Consequently, there was no exchange of cash. The amount related to the Company's maximum potential repurchase obligation under the put warrants has been reclassified from stockholders' equity to put warrants at October 31, 1996. The Company has the right to settle the put warrants with stock or a cash settlement equal to the difference between the exercise price and market value at the date of exercise. These securities had no significant dilutive effect on net income per share for the periods presented.

AUTODESK, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

- 4 On December 10, 1996, the Company entered into a merger agreement with Softdesk, Inc. ("Softdesk"), a leading supplier of AutoCAD-based application software for the architecture, engineering and construction (AEC) market, in a transaction anticipated to be accounted for as using the purchase method. The terms of the merger agreement were subsequently amended on December 19, 1996. If the transaction is consummated under the terms of the agreement, Autodesk will issue \$15.00 worth of its common stock for each outstanding share of Softdesk stock, subject to adjustment based on the average closing price of Autodesk's common stock over a specified period preceding the closing date of the transaction. Based upon closing stock prices on December 13, 1996, the transaction is valued at approximately \$90 million for Softdesk shareholders.

The merger is expected to close in the first calendar quarter of 1997. The merger is subject to the approval of Softdesk's stockholders and appropriate government agencies. The Company estimates that it will incur direct transaction costs associated with this merger in the range of approximately \$2.5 million to \$3.5 million. At closing, this transaction is expected to result in one time charges of approximately \$50 million to \$60 million with respect to in-process research and development based on the preliminary purchase price allocation. Following this merger, the Company also expects to incur approximately \$3 million for personnel redeployment and related costs. In addition, the Company expects to incur additional expenses of approximately \$3 million to \$4 million with regard to integrating the two companies. There can be no assurance that the Company will not incur additional material charges in subsequent quarters to reflect additional costs associated with the merger.



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

The forward-looking statements included in Management's Discussion and Analysis of Financial Condition and Results of Operations, which reflect management's best judgment based on factors currently known, involve risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including but not limited to those discussed below. Forward-looking information provided by Autodesk pursuant to the safe harbor established by recent securities legislation should be evaluated in the context of these factors.

RESULTS OF OPERATIONS

Three Months Ended October 31, 1996 and 1995  
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Net revenues. Autodesk's worldwide net revenues in the third quarter of fiscal year 1997 were \$116.6 million compared to \$128.5 million in the prior fiscal year, a decrease of 9 percent. The lower revenues resulted principally from lower unit shipments of AutoCAD and AutoCAD updates as the current version, AutoCAD Release 13, which began shipping in the fourth quarter of fiscal year 1995, experiences a slowdown in sales as it enters the latter stages of its life cycle. Net revenues by geography for the third fiscal quarter were \$46.3 million, \$26.6 million, and \$43.7 million in the Americas, Asia/Pacific, and Europe, respectively. Third quarter revenues in fiscal year 1997 as compared to the same period in the prior fiscal year were also adversely impacted by approximately \$2.5 million resulting principally from the stronger value of the dollar relative to foreign currencies, most notably the Japanese yen and the German mark. These decreases were partially offset by higher sales of new and enhanced products introduced during the current fiscal year, including Autodesk Mechanical Desktop, Autodesk Map, and AutoCAD LT for Windows 95. Third quarter net revenues in fiscal year 1997 as compared to fiscal year 1996 decreased by 9 percent and 18 percent in the Americas and Europe, respectively, resulting from lower shipments of AutoCAD and AutoCAD updates. Revenues derived from AutoCAD and AutoCAD updates represented approximately 65 percent of consolidated revenues in the third quarter of fiscal year 1997 as compared to approximately 75 percent in the same period of the prior fiscal year. Revenue decreases included reductions in the US dealer channel as well as reductions in Germany and Switzerland. Partially offsetting the decreases in Europe and the Americas was an 8 percent increase in Asia/Pacific revenues. The increase posted in Asia/Pacific resulted primarily from revenue increases in Japan and South Korea from sales of AutoCAD LT and the Company's multimedia and mechanical product offerings which were partially offset by lower AutoCAD shipments. International sales, including exports from the US, accounted for approximately 63 percent of the Company's revenues in the third quarter of fiscal year 1997 as compared to 64 percent for the third quarter of fiscal year 1996.

The Company believes that net revenues in the coming quarters will be negatively impacted by a slowdown in sales of AutoCAD and related updates as AutoCAD Release 13 nears the end of its product life cycle. As a result, AutoCAD revenues are expected to continue to decline as a percentage of consolidated revenues. While the Company expects that new products introduced in recent quarters, including 3D Studio MAX, AutoCAD LT for Windows 95, Autodesk Map, and Autodesk Mechanical Desktop, will partially offset the decrease in AutoCAD revenues, the Company currently does not anticipate revenue growth on a sequential basis in the quarter ending January 31, 1997. The Company anticipates, however, that following the commencement of shipping the next release of AutoCAD, which is currently anticipated to occur in the first half of the fiscal year ending January 31, 1998, AutoCAD sales will increase as a percentage of consolidated revenues. While the Company has anticipated a slowdown in AutoCAD revenues based on historical experiences and known market conditions, any variations from the Company's current expectations may have a material impact on the Company's financial results.

Delays in the introduction of the next version of AutoCAD or other new and enhanced products planned for the coming quarters, 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, continued slowdowns in the Americas, particularly in the US, and in various European markets including Germany and Italy, could also have a material adverse effect on the Company's business and consolidated results of operations.

The foregoing forward-looking information is based upon current expectations of the Company. Actual results could differ materially for the reasons noted and due to other risks, including but not limited to those mentioned above and otherwise discussed under "Certain Factors Which May Impact Future Operating Results," page 12.

**Cost of revenues.** Cost of revenues as a percentage of net revenues increased approximately one-half percent in the third quarter of fiscal 1997 as compared to the third quarter of the prior fiscal year. Gross margins in the current quarter were adversely impacted by the mix of products sales and to a lesser extent, the impact of increased fixed costs on a lower net revenue base. Revenues from commercial versions of AutoCAD, which historically have yielded a higher gross margin than many of the Company's other commercial products, decreased as a percentage of consolidated revenues. Similarly, AutoCAD LT, which has a lower gross margin than AutoCAD commercial versions, increased as a percentage of total revenues. 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 the Company's products, and the geographic distribution of sales.

**Marketing and sales.** Marketing and sales expenses increased from 36 percent of net revenues in the third quarter of fiscal year 1996 to 43 percent in the third quarter of fiscal year 1997. Actual spending increased 9 percent as a result of higher employee costs as well as marketing and sales costs associated with the launch of AutoCAD LT for Windows 95, and AutoCAD Map Release 1.0. 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 as a percentage of net revenues for the third quarter of fiscal year 1997 increased to 20 percent from 15 percent in the third quarter of the prior fiscal year. Actual research and development spending increased by 21 percent in absolute dollars on a year over year basis due to the addition of software engineers and increased personnel costs, costs associated with the development of new and enhanced products, including the next release of AutoCAD, and the translation of certain of these products into foreign languages. The Company anticipates that research and development expenses will increase in fiscal year 1997 over the prior fiscal year as a result of acquisitions and product development efforts by the Company's market groups. 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 were 16 percent of net revenues in the third quarter of the current fiscal year as compared to 14 percent in the same period of fiscal year 1996. Actual spending remained flat between the periods and reflect increased costs associated with recent acquisitions offset by lower professional fees. The Company currently expects that general and administrative expenses will increase moderately in future periods to support spending on infrastructure, including continued investment in Autodesk's worldwide information systems, and to a lesser extent, as a result of recent acquisitions. During the quarter ending January 31, 1997, the Company expects to incur \$500,000 to \$1,000,000 in expenses associated with its merger agreement with Softdesk, Inc., a leading supplier of AutoCAD-based application software for the architecture, engineering and construction (AEC) market. This transaction, which is anticipated to be accounted for as a pooling of interests, is expected to close in the first calendar quarter of 1997.

Charge for acquired in-process research and development. In August 1996, the Company acquired for cash certain assets of Argus Technologies, Inc. ("Argus"), a Canadian Company engaged in the development of mapping software and geographic information systems technology for use on the Internet and corporate intranets. The acquisition has been accounted for using the purchase method of accounting with the purchase price being principally allocated to capitalized software and purchased technologies, and intangible assets. Approximately \$1.5 million of the total purchase price represented the value of in-process research and development that had not yet reached technological feasibility and had no alternative future use and was charged to the Company's operating expenses in the third quarter of fiscal year 1997.

The results of Argus have been included in the Company's consolidated financial results from the acquisition date. In the near term, the Company expects the operating expenses associated with the Argus acquisition and other acquisitions completed during fiscal year 1997 will exceed revenues, resulting in a negative impact of up to \$0.02 per share in the fourth quarter of the current fiscal year.

Interest and other income. Interest and other income in the third quarter of fiscal year 1997 was \$1.6 million, including foreign currency gains of approximately \$76,000, compared to \$2.2 million in the same quarter of the prior fiscal year, which included foreign currency losses of approximately \$92,000. Interest income for the third quarter of fiscal year 1997 was \$2.1 million, a decrease of approximately \$.6 million from the same period in the prior fiscal year resulting from lower average cash balances and lower interest rates on the Company's international investment portfolio when compared to the same period in the prior fiscal year.

Provision for income taxes. The Company's effective income tax rate was 35.5 percent in the third quarter of fiscal year 1997 as compared to 36.5 percent in the same quarter of the prior fiscal year. The decrease in the effective income tax rate is principally attributable to increased foreign earnings which are taxed at rates lower than the US statutory rate.

#### Nine Months Ended October 31, 1996 and 1995

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Net revenues. Autodesk's net revenues for the nine months ended October 31, 1996 were \$381.7 million which represented a 6 percent decrease from the same period of the prior fiscal year. The decrease resulted from revenue decreases in the Americas and Europe of 14 percent and 6 percent respectively, reflecting slowdowns in the US dealer channel, Germany, Switzerland, and France. The reductions reflect lower sales of AutoCAD and AutoCAD updates as the current release enters the end of its product life cycle, as well as a general slowdown in the German market and its impact on other European economies. Net revenues for the first nine months of fiscal year 1997 were also negatively affected by approximately \$14.0 million due to changes in foreign exchange rates when compared to the same period in the prior fiscal year primarily due to changes in the exchange rates of the Japanese yen and German mark, partially offset by favorable variances in the Italian lire and Swedish krona. The decreased revenues as compared to the prior fiscal year were partially offset by revenues from new and enhanced products introduced during fiscal year 1997, most notably Autodesk Mechanical Desktop, AutoCAD LT for Windows 95, Autodesk Map, and 3D Studio MAX.

For the three- and nine- month periods in fiscal year 1996 ended October 31, 1995, product returns which are accounted for as a reduction of revenues, were 11 percent and 9 percent of consolidated net revenues, respectively. For the comparable periods in fiscal year 1997, product returns were 8 percent and 9 percent of consolidated net revenues. While the Company experienced a decrease in product returns in absolute dollars during the first nine months of fiscal year 1997, management anticipates that product returns in future periods will continue to be impacted by product update cycles, new product releases, and software quality.

Cost of revenues. Cost of revenues as a percentage of net revenues for the nine months ended October 31, 1996 was 13 percent as compared to 12 percent for the same period of the prior fiscal year. The increase resulted from increased royalty payments associated with Autodesk Mechanical Desktop and 3D Studio MAX, as well as a higher percentage of revenues from AutoCAD LT which has a lower gross margin than many of the Company's other commercial products.

Operating expenses. Operating expenses for the Company's marketing and sales, research and development, and general and administrative functions for the nine months ended October 31, 1996 increased approximately 11 percent to \$279.8 million as compared to \$251.8 million for the same period of the prior fiscal year. The growth in operating expenses from the prior fiscal year was due to increased headcount, higher spending to support the marketing and development of new and enhanced products, expenditures to support the Company's market group structure, and increased spending in order to support the Company's increased operations and related infrastructure.

Operating expenses for the first three quarters of fiscal year 1997 also included charges of \$4.7 million for acquired in-process research and development associated with the Teleos and Argus acquisitions.

Interest and other income. Interest and other income for the nine months ended October 31, 1996 was \$4.5 million as compared to \$7.3 million in the same period of the prior fiscal year. Interest income was \$5.3 million for the first nine months of fiscal year 1997 as compared to \$8.2 million in the same period of the prior fiscal year. The decrease in interest income from the same period of the prior fiscal year resulted from lower average cash balances and lower interest rates on the Company's international investment portfolio.

Income taxes. The Company's effective income tax rate was 37.8 percent for the nine-month period ended October 31, 1996 as compared to 36.5 percent in the same period of the prior fiscal year. The increase in the effective income tax rate resulted from a one-time charge for acquired in-process research and development recorded in the second quarter of fiscal year 1997 associated with the Teleos acquisition which is not deductible for income tax purposes, partially offset by a reduction in the effective income tax rate attributable to increased foreign earnings which are taxed at rates lower than the US statutory rate.

#### 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 the Company's control. The following discussion highlights some of these risks and the possible impact of these factors on future results of operations.

Fluctuations in quarterly operating results. The Company has experienced fluctuations in operating results in interim periods in certain geographic regions due to seasonality and general economic conditions in these markets. The Company's operating results in Europe during the third fiscal quarter are usually impacted by a slow summer period while the Asia/Pacific operations typically experience seasonal slowing in the third and fourth fiscal quarters.

The Company typically receives and fulfills a majority of its orders within the quarter, with a substantial portion occurring in the third month of the fiscal quarter. As a result, the Company may not learn of revenue shortfalls until late in a fiscal quarter. Additionally, the Company's operating expenses are based in part on its expectations for future revenues and are relatively fixed in the short term. Any revenue shortfall below expectations could have an immediate and significant adverse effect on results of operations.

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 the Company's common stock. Moreover, the Company's stock price is subject to the volatility generally associated with software and technology stocks and may also be affected by broader market trends unrelated to the Company's performance.

**Product concentration.** Autodesk derives a substantial portion of its revenues from sales of AutoCAD, AutoCAD updates, and adjacent computer-aided design ("CAD") products which are interoperable with AutoCAD. As such, any factor adversely affecting sales of AutoCAD and AutoCAD updates, 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 and financial condition. The current version of AutoCAD, Release 13, is entering the latter stages of its product life cycle which is expected to result in lower AutoCAD sales and unit shipments in future periods. While the Company has anticipated a slowdown in AutoCAD revenues based on historical experiences and known market conditions, any variations from the Company's current expectations may have a material impact on the Company's financial results.

A substantial portion of the Company's CAD sales, including sales of AutoCAD and AutoCAD updates, are used by the Architecture, Engineering, and Construction ("AEC") industry. The Company's product sales to the AEC markets, particularly in the US and in various European markets, including Germany, France, and Italy, relative to prior periods, have slowed due in part to general market conditions and short-term growth is not anticipated for these markets. Contraction in the AEC industry in other markets where the Company operates or a greater than anticipated slowdown in the US and Europe could have a material adverse effect on Autodesk's business and consolidated results of operations in future periods.

**Product development and introduction.** The software products offered by the Company are internally complex and, despite extensive testing and quality control, may contain errors or defects ("bugs"), especially when first introduced. In fiscal year 1996, the Company experienced quality and performance issues associated with AutoCAD Release 13 including issues relating to compatibility with certain hardware platforms and peripheral equipment, interoperability problems with products designed to work in conjunction with AutoCAD Release 13, and other issues associated with the software's object-oriented design. These factors resulted in a high rate of product returns in fiscal year 1996. While the Company believes the AutoCAD Release 13 performance issues have been satisfactorily addressed, there can be no assurance that defects or errors will not be discovered in future releases of AutoCAD and other software products offered by the Company. Such defects or errors could result in corrective releases to the Company's software products, damage to the Company'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 the Company's business and consolidated results of operations.

The software industry is characterized by rapid technological change as well as changes in customer requirements and preferences. The Company believes that its future results will depend largely upon its ability to offer products that compete favorably with respect to price, reliability, performance, range of useful features, continuing product enhancements, reputation, and training. Delays or difficulties, including the discovery of product defects similar to those experienced with AutoCAD Release 13, may result in the delay or cancellation of planned development projects and could have a material and adverse effect on the Company's business and consolidated results of operations. Further, increased competition in the market for design, multimedia, data management, or data publishing software products could also have a negative impact on the Company's business and consolidated results of operations.

Certain of the Company's product development activities are performed by independent firms and contractors while other technologies are licensed from third parties. Autodesk generally either owns or has an exclusive license for use of the software developed by third parties. Because talented development personnel are in high demand, there can be no assurance that independent developers, including those who have developed products for the Company in the past, will be able to provide development support to Autodesk in the future. Similarly, there can be no assurance that the Company will 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 the Company's business and consolidated results of operations.

International revenues. The Company anticipates that international revenues will continue to account for a significant portion of its consolidated revenues. Risks inherent in the Company's international sales include the following: unexpected changes in regulatory practices and tariffs; difficulties in staffing and managing foreign operations; longer collection cycles; potential changes in tax laws; greater difficulty in protecting intellectual property; and the impact of fluctuating exchange rates between the US dollar and foreign currencies in markets where Autodesk does business. During the first nine months of the current fiscal year, changes in exchange rates from the same period of the prior fiscal year have adversely impacted revenues principally due to changes in the Japanese yen and Germany mark. The Company's international results may also be impacted by general economic and political conditions in these foreign markets including a current slowdown in the German market and its adverse impact on other European markets where the Company operates. There can be no assurance that these and other factors will not have a material adverse effect on the Company's future international sales and consequently on the Company's business and consolidated results of operations.

Dependence on distribution channels. The Company sells its software products primarily to distributors and dealers (value-added resellers or "VARs"). Autodesk's ability to effectively distribute its products depends in part upon the financial and business condition of its VAR network. Although the Company has not to date experienced any material problems with its VAR network, computer software dealers and distributors are typically not highly capitalized and have experienced difficulties especially during times of economic contraction and may do so in the future. The loss of or a significant reduction in business with any one of the Company's major international distributors or large US dealers could have a material adverse effect on the Company's business and consolidated results of operations in future periods.

Product returns. With the exception of certain European distributors, agreements with the Company's VARs do not contain specific product-return privileges. However, the Company permits its VARs to return product in certain instances, generally during periods of product transition and update cycles. In fiscal year 1996, the Company experienced a higher level of product returns than in fiscal years 1995 and 1994, most notably in the US, which management attributed primarily to performance issues associated with initial versions of AutoCAD Release 13 software. While the Company experienced a decrease in product returns in absolute dollars during the first nine months of fiscal year 1997 relative to the corresponding period of the prior fiscal year, 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 allowances, including allowances 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 the Company maintains strict measures to monitor channel inventories and to provide appropriate allowances, actual product returns may differ from the Company's reserve estimates, and such differences could be material to Autodesk's consolidated financial statements.

Intellectual property. The Company protects its intellectual property through copyright, trade secret, patent, and trademark laws. There can be no assurance that such measures will be adequate to protect the Company's proprietary intellectual property or that claims or infringement of third parties' intellectual property rights will not occur. In the normal course of business, the Company receives and makes inquiries with regard to possible patent infringement. Disputes regarding patent infringement or violations of other intellectual property rights could lead to costly litigation or licensing arrangements. Where deemed advisable, the Company may seek licenses or negotiate settlements. Costs incurred in the future to litigate intellectual property ownership or to negotiate license rights could negatively impact future results of operations.

#### LIQUIDITY AND CAPITAL RESOURCES

Cash, cash equivalents, and marketable securities, which consist primarily of high-quality municipal bonds, tax-advantaged money market instruments, and US treasury notes, totaled \$253.9 million at October 31, 1996 compared to \$272.4 million at January 31, 1996. (Both amounts include a restricted balance of \$28.0 million related to a litigation judgment. See Part II, Item 1 of this report.) During the first nine months of fiscal year 1997, the Company generated \$72.3 million in cash from operations and realized cash proceeds of \$17.6 million from the issuance of shares through employee stock option and stock purchase programs. These increases were partially offset by cash used to purchase 2,207,000 shares of the Company's stock (\$67.0 million) under an ongoing, systematic repurchase program and under a 5 million share repurchase program approved by the Company's Board of Directors in August 1996; to purchase computer equipment, furniture, and leasehold improvements (\$15.3 million); to effect businesses combinations (\$9.7 million); and to pay dividends on the Company's common stock (\$8.1 million).

The Company's principal commitments to use cash at October 31, 1996 include payments of operating leases for facilities and Autodesk's potential put warrant obligation under its new stock repurchase program. See Note 3. of Notes to Condensed Consolidated Financial Statements.

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; repurchases of the Company's common stock; and the possible 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 cash requirements.

PART II. OTHER INFORMATION

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ITEM 1. LEGAL PROCEEDINGS

In October 1992, Vermont Microsystems, Inc. ("VMI") filed a complaint against the Company in the US District Court for the District of Vermont, alleging among other things, misappropriation of trade secrets. In October 1994, the case was tried before a Magistrate of the US District Court of Vermont. In December 1994, the US District Court ruled in favor of VMI on the trade secret claim and the Company recorded a litigation charge of \$25.5 million as a result of a judgment in this matter. The Company appealed that judgment, and VMI cross-appealed, before the US Court of Appeals for the Second Circuit in January 1996. In July 1996, the Court of Appeals affirmed the lower court's finding of liability but remanded the award for damages back to the US District Court of Vermont to reconsider the appropriate calculation of damages. VMI's cross-appeal was denied by the appellate court. Management believes the ultimate resolution of this matter will not have a material adverse effect on the Company's consolidated financial condition, results of operations, or cash flows.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the quarter ended October 31, 1996.



Signatures

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

DATED: February 28, 1997

AUTODESK, INC.  
(Registrant)

/s/ CAROL A. BARTZ  
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Carol A. Bartz  
Chairman and Chief Executive Officer

/s/ JOHN E. CALONICO  
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John E. Calonico  
Acting Chief Financial Officer  
(Principal Financial and Accounting Officer)