Transforming Business by Design

the internet is transforming the economy, the business world, and Autodesk.
Letter to Stockholders:

Let me begin by thanking you, as well as our employees, partners, and customers, for your continued support through an unexpectedly difficult year.

I believe your confidence in Autodesk is justified.

The year’s mixed financial results were disappointing. But we know what caused the problems, and we’ve worked through them and moved our business beyond them.

Most important, we worked hard and smart all year to firmly position the company for a robust future. Not only did we deliver the richest product suite in the design and entertainment industries, but we also hammered out, and began executing, strategic initiatives that leverage our unique and formidable assets as we lead design to the Internet.

Before I discuss our strategic achievements and what they mean for our future, let’s take a detailed look at the financial challenges we faced—beginning with the overall revenue picture.

The Overall Revenue Picture
Overall fiscal year 2000 (FY00) revenues were $820 million, down 6 percent from the previous year. Here’s how the year’s revenues looked by business segment and by region.

Business Segment
• Design Solutions revenues fell by 7 percent to $648 million.
• Discreet revenues equaled the previous year’s $172 million.

Regions
• Americas revenues fell 15 percent to $353 million.
• Europe, Middle East, and Africa (EMEA) revenues fell 10 percent to $296 million.
• Asia Pacific revenues grew 32 percent to $171 million.

Now let’s review the challenges that contributed to this revenue picture.
Challenges We Faced
Frankly, the light revenues generated by AutoCAD® 2000 software surprised us. We knew, based on the terrific reception by thousands of test sites and the industry press, that we’d delivered a great product, a great design platform. And customers told us they planned to buy.

Yet sales of AutoCAD 2000 were soft. We soon identified the reasons why.

Many companies were delaying their planned software purchases for the year, diverting budgets into solving the Y2K problem. This, of course, affected many companies including Autodesk.

And an unexpectedly high number of customers, current and potential, were waiting for AutoCAD LT® 2000 and the AutoCAD 2000–based market-specific applications: AutoCAD Architectural Desktop™, AutoCAD® Land Development Desktop, AutoCAD Map®, AutoCAD® Mechanical, and Mechanical Desktop® software.

Market-Specific Applications: A Matter of Timing
We’re pleased that customers were so interested in our market-specific products. We’ve been working for years to move them from stand-alone AutoCAD because market-specific products bring in a higher average sales price and can satisfy a larger customer base.

But we weren’t ready to ship most of these products until the third and fourth quarters. And we didn’t anticipate just how many customers would wait for them.

Once we did ship the market-specific applications, I have to say, they were very well received. In fact, sales of these products helped our vertical markets, within our Design Solutions segment, increase revenues by 20 percent over the previous year:

• Geographic Information Systems (GIS) revenues were up 47 percent.
• Architecture, Engineering, and Construction (AEC) revenues were up 21 percent.
• Manufacturing Design and Information revenues were up 10 percent.

Cost Cutting Promotes Strong Financial Finish
To decrease costs and increase profitability, we reduced our worldwide workforce by 10 percent in the third quarter—well before sales of the market-specific applications started enhancing revenues. It was the first such cutback in our history and a difficult time for us all. But I believed then, as I do now, that it was a required step back to financial health.

Together, the workforce reduction and increased market-specific sales helped boost pro forma operating margins in the last two quarters. (Pro forma excludes amortization of goodwill and nonrecurring charges, primarily related to acquisitions and restructuring charges.) Second-half margins climbed to 13 percent, up from 3 percent in the first half; overall, margins finished the year at 8 percent.

We also closed the year with a strong balance sheet: cash, cash equivalents, and marketable securities totaled $541 million. In addition, we adopted a stock repurchase program for up to 8 million shares and repurchased approximately 2.9 million shares during the year.

All in all, it was a solid financial finish—just one of many reasons why I’m confident that our position in the marketplace is healthy and getting healthier.

It’s time to look at our strategic achievements and the great opportunities ahead.
Strategic Accomplishment: Design 2000 Product Suite

We developed and delivered a family of AutoCAD 2000–based products that extend our reach into new markets.

With AutoCAD 2000 as the intelligent and web-ready foundation, our Design 2000 product family provides customers with integrated, scalable solutions for any industry-specific design project—from AEC to GIS, from land development to mechanical engineering to low-cost 2D drafting. In addition to this potent platform, we created compatible, innovative technologies for 3D visualization, image conversion, viewing, and redlining—and our partners added thousands more.

Strategic Accomplishment: Autodesk Inventor

We developed and delivered Autodesk Inventor™ software, a new-technology 3D modeling solution that is transforming the way mechanical designers work.

Developed so collaborative project teams could take advantage of crucial, emerging trends in manufacturing—and so easy to learn and use that most customers are productive in a single day—Autodesk Inventor leapfrogs the limitations of traditional parametric-based modeling systems. Its all-new adaptive technology lets our customers design the way they think. For example, they can design a part’s function before designing its form; this natural, intuitive process gets subverted in most pure parametric systems. With its collaborative capabilities, Autodesk Inventor is the first midprice mechanical solution that can leverage design data across the entire enterprise. And with an exceptional record of industry awards and new releases available every few months, it’s definitely a product to watch.

Strategic Accomplishment: Key Acquisitions

We broadened and strengthened our core competencies—in digital content creation and spatial data management—with two key first-quarter acquisitions.

The visual effects, editing, production, and broadcast solutions of Discreet Logic, our largest acquisition ever, gave us a preeminent position in digital content creation—far beyond our already strong standing, secured by 3D Studio MAX® software, in 3D animation and interactive games development. Discreet™ systems and software are widely used to create digital moving pictures for video, HDTV, the Web, broadcast graphics, on-air event coverage, and interactive games. For example, the company’s inferno* system, the industry’s leader in online noncompressed visual effects and compositing, was used in every 1999 film nominated for a Best Visual Effects Academy Award.

With the world’s most creative on-air, on-screen, and online content-creation solutions, our new Discreet entertainment division proved itself a consistent revenue generator even as we rebuilt its direct-sales force and management team. It made further inroads into TV and film, shipping major new releases of fire* and smoke*, its industry-leading online noncompressed editing solutions; edit*, the award-winning nonlinear Windows NT editing system; and frost*, for on-air, resolution-independent graphics production.

We also acquired VISION Solutions, whose server technology gives us an end-to-end enterprise solution for spatial data management for the communications and utility markets and government customers. Our VISION* backbone server technology links two of our GIS products, AutoCAD Map and Autodesk MapGuide® software, with Oracle databases. Significantly, our VISION* solution includes consulting services—a new growth opportunity for us.
Strategic Accomplishment: Leveraging the Internet

We produced exciting initial results from our three-pronged Internet strategy. The following are just a few samples of what we’ve introduced so far.

Web-enabled desktop products: We’re integrating our core desktop applications with the Web, enhancing the way customers use them.

Autodesk® Product Extensions are web-deliverable feature sets, available in tight release cycles, that “extend” our products’ capabilities in targeted ways. The first such extension, AutoCAD® 2000 for the Internet, has been available since the first quarter of FY01. It adds wizard-based publishing tools and enhanced capabilities for collaboration and design sharing to AutoCAD 2000 and products based on AutoCAD 2000; it’s a great example of how we’re leveraging our desktop strength for the Internet. What’s more, this Internet extension provides a live connection to Autodesk® Point A, our new design portal. Other extensions will follow.

The Point A portal provides rich online resources to the world’s largest community of designers, engineers, partners, and suppliers. Point A is “always on” inside our web-ready software, so customers can extend their knowledge and grab content without leaving their design environment. The portal automatically customizes itself for a customer’s particular discipline, or customers can select a gateway to access the market-specific content of their choice. Point A is also open to the millions of other designers and engineers using Microsoft Internet Explorer or Netscape Navigator. I invite you to take a look, at pointA.autodesk.com.

Browser-based products: We’re creating browser-based products that use the Web to interactively access, update, and disseminate design or spatial information, in real time, to and from any point in the extended enterprise.

The best example here is the wireless technology platform that we’ve developed with cooperation from Oracle Corporation and several telecommunications firms. The first implementation, Autodesk® OnSite software, became available in the first quarter of FY01. It lets offsite customers tap into a central database, download fresh data, modify it, and update the database on the fly. Such point-of-work solutions are essential for utility field crews, construction or shop-floor workers, and others who increasingly rely on handheld digital assistants, laptops, tablets, and cell phones.

Portals and marketplaces: We’re building design portals, such as Autodesk Point A, and business-to-business marketplaces that complement and extend our core desktop business.

Buzzsaw.com is the first Internet business incubated internally and then spun off, in the fourth quarter, by the Autodesk Ventures group. It attracted $75 million in its first two rounds of venture funding, and Autodesk currently retains 40 percent ownership. Buzzsaw.com targets the huge but fragmented construction industry—a $700 billion market in the United States alone. Today it’s the industry’s largest and fastest growing collaboration workspace and online resource, having already hosted more than 6,500 projects with tens of thousands of customers. The marketplace can also be directly accessed, through the Autodesk Point A portal, by the industry’s largest customer base: ours. Please visit buzzsaw.com.

Autodesk Ventures is incubating a second business-to-business marketplace that will, like Buzzsaw.com, include outside venture funding. The goal of RedSpark, Inc., is to provide the most accessible and complete supply chain sourcing solutions to a targeted sector of the manufacturing industry—a $1.8 trillion market in the United States alone. RedSpark will link manufacturers of custom engineered goods and catalog component vendors with buyers and engineers in a collaborative, online environment. Its services, like Buzzsaw.com’s, can also be directly accessed by our mechanical customers through the Autodesk Point A portal. Please take a look at redspark.com.
Transforming Business by Design
This is an auspicious time for Autodesk. Here’s why.

The design world is vast and enduring.
Look around. If what you see wasn’t forged by nature, chances are excellent Autodesk software played a part. (The same goes for much of what you don’t see.) Will Autodesk customers be the ones who continue to modify, add to, and improve our physical and digital environments? Absolutely.

We’re entering our greatest era of innovation.
The Internet is radically changing how people create, maintain, and enhance the real and virtual worlds—and we’re adapting to provide our customers with powerful new opportunities in communication, collaboration, content, and commerce. Keep in mind that moving to the Internet is a natural extension of our design and entertainment businesses.

Autodesk and our customers hold a powerful and unique position.
Our 4 million-plus customers, the largest installed base in the design and entertainment worlds, make choices worth trillions of dollars each year. Only Autodesk customers have a strong presence in all the major design and entertainment markets. And they use our software to create the information that is poised to become the universal language for much of e-commerce and other web-based collaboration.

We can tie together the value chain.
We’re doing it with a new business model that has as its center Autodesk and our assets—our global customers, our world-class technologies, our industry-leading partners, our sales and service channels, and our brand. We’re adding spin-offs and strategic investments and alliances. Digital information can now be leveraged throughout a corporation’s entire value chain to bring new competitive advantages. As our network of businesses grows and evolves, we’ll reach far more customers than we do today.

The design world is becoming increasingly connected. And so are we.

Chairman, President, and Chief Executive Officer
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 Exchange Act of 1934 for the fiscal year ended January 31, 2000

___ 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
(State or other jurisdiction of incorporation or organization)

94-2819853
(I.R.S. employer identification No.)

111 McInnis Parkway, San Rafael, California
(Address of principal executive offices)

94903
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

None

Name of each exchange on which registered

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 ☑ 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. ☐

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 3, 2000 as reported on the NASDAQ National Market, was approximately $2.0 billion. 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 3, 2000, Registrant had outstanding approximately 62.0 million shares of Common Stock.

Documents Incorporated by Reference

Portions of the Proxy Statement for Registrant’s Annual Meeting of Stockholders to be held June 22, 2000 are incorporated by reference in Part III.
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.”

Item 1. Business
General
Autodesk was incorporated in California in April 1982 and was reincorporated in Delaware in May 1994. Autodesk’s two-dimensional, or 2D, and three-dimensional, or 3D, products are used across industries and in the home for architectural design, mechanical design, spatial data management and mapping, animation, and visualization applications. Autodesk’s flagship product, AutoCAD®, is one of the world’s leading computer-aided design, or CAD, tools, with an installed base of more than 2.5 million units worldwide. Autodesk’s software products are sold worldwide, primarily through a network of resellers and distributors.

In March 1999, Autodesk acquired Discreet Logic Inc. in a business combination accounted for as a pooling of interests. The Discreet Division develops, assembles, markets and supports nonlinear digital systems and software for creating, editing and compositing imagery. The Discreet Division’s products are used extensively in film and video postproduction, games and multimedia, broadcasters’ graphics, programming and on-air event coverage, as well as by designers and architects for 3D visualization and conceptualization.

During the second quarter of fiscal 2000, Autodesk reorganized its operations into four business divisions with industry-specific charters: the Design Solutions Division (consisting primarily of the Mechanical Computer-Aided Design, or MCAD, and Architecture, Engineering and Construction, or AEC, market groups and most of the Personal Solutions Group), the Geographic Information Systems Solutions, or GIS, Division, Autodesk Ventures and the Discreet Division (consisting of the Kinetix® and Discreet businesses). Autodesk’s operating results have been aggregated into two reportable segments: the Discreet Segment and the Design Solutions Segment, which includes GIS and Autodesk Ventures. The Design Solutions and GIS divisions have similar production processes, customer types and distribution methods. Autodesk Ventures’ segment information is not material.

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

Products
The principal product offerings from the Design Solutions Segment are described below:

AutoCAD
AutoCAD software is a general-purpose CAD tool used independently and in conjunction with other specific applications in fields ranging from construction and manufacturing to process plant design and mapping. Professionals utilize AutoCAD for design, modeling, drafting, mapping, rendering and facility management tasks. AutoCAD currently runs on Microsoft Windows 95, Windows 98 and Windows NT for Intel and Intel-compatible hardware platforms.

AutoCAD 2000 was introduced in April 1999. Built as a platform for efficiently connecting design teams, AutoCAD 2000 includes enhancements in areas that influence team and individual productivity, including: 3D visualization and geometry creation tools, Internet integration and in-place reference file editing. AutoCAD 2000 also introduced key new design technology including: a new environment for working with multiple design files, an object property manager, the AutoCAD DesignCenter™ for drag-and-drop access of local and web-based design content, a new high-performance hardcopy system, and a complete overhaul of the AutoLISP customization environment. In addition to providing significant new features, AutoCAD 2000 demonstrated superior reliability, winning the 1999 All-Star Award from Cadalyst Magazine and the 1999 Editors’ Choice Award from Cadence Magazine.
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® technology, utilizing AutoCAD’s object-oriented C++-based application programming interfaces, or APIs. AutoCAD 2000 added extensive additions and enhancements to the ObjectARX kernel, enabling complete object access to the core geometry data model and developer access to new AutoCAD 2000 technology and features.

On a stand-alone basis, sales of AutoCAD and related upgrades accounted for 37 percent, 43 percent and 52 percent of Autodesk’s consolidated net revenues in fiscal 2000, 1999 and 1998, respectively. During fiscal year 2000, approximately 322,000 new AutoCAD based licenses were added worldwide, compared to 266,000 and 244,000 licenses added during fiscal 1999 and 1998, respectively.

**Mechanical Desktop**

Mechanical Desktop® is the world’s leading midpriced 3D design system and is the only system that integrates 2D design with parametric, feature-based solid and surface modeling. It extends the power of the AutoCAD design environment by uniﬁng 2D and 3D design. Core benefits of Mechanical Desktop are 3D, feature-based solid and surface modeling; AutoCAD integration; and ﬂexible 2D design, 3D modeling and surfacing.

**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 Map 2000**

AutoCAD Map® 2000 is the Autodesk solution for precision mapping and geographic information system analysis in the AutoCAD environment. It contains the complete AutoCAD 2000 toolset to enhance productivity, plus it offers specialized functionality for creating, maintaining and producing maps and geospatial data. AutoCAD Map 2000 integrates a wide variety of data types and file formats, provides powerful database-linking capabilities and includes essential GIS analysis tools. Customers can work with large data sets consisting of multiple maps, and multiple users can access the same map simultaneously without versioning conﬂicts. Sophisticated plotting and presentation capabilities make AutoCAD Map 2000 an effective communication tool.

**AutoCAD LT**

AutoCAD LT® 2000 is a low-cost 2D CAD application intended for CAD managers, designers and engineers who need a powerful, stand-alone drafting tool, but who do not require the advanced feature set in AutoCAD. AutoCAD LT 2000 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; the AutoCAD Design Center 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 2000 is fully compatible with Windows 98 and Windows NT 4.X, and has built-in Microsoft Office 97 compatibility.

The principal product offerings from the Discreet Segment are discussed below:

**3D Studio MAX**

3D Studio MAX® R3 software, which began shipping in the second quarter of fiscal 2000, 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 personal computers.
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®, a powerful character-animation and skinning plug-in software product offered by Autodesk.

**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, a Silicon Graphics, Inc., or SGI, Octane workstation, discreet storage 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 color calibration. A complete inferno* system includes the inferno* software, an SGI Onyx2 workstation, discreet storage and various I/O devices.

**Product Development and Enhancement**

The majority of Autodesk's basic research and product development has been performed in the U.S., 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 Neuchâtel, Switzerland. Production in Europe is centralized in Ireland, and production in Asia Pacific primarily takes place 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 technology industry is characterized by rapid technological change in computer hardware, operating systems and software, as well as changes in customer requirements and preferences. To keep pace with these changes, 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.

The software products offered by Autodesk are internally complex and, despite extensive testing and quality control, may contain errors or defects. Defects or errors may occur in future releases of AutoCAD or other products. These defects or errors could result in corrective releases to Autodesk's 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 harm Autodesk's business.

Autodesk believes that its future results will depend largely upon its ability to offer products that compete favorably in terms of reliability, performance, ease of use, range of useful features and other factors. Delays or difficulties in product development and enhancement may result in the delay or cancellation of planned development projects, and could harm Autodesk’s business. Further, increased competition in the market for design, drafting, mapping or multimedia software products could also have a negative impact on Autodesk's business.
From time to time Autodesk 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 resellers or distributors to seek to return products, any of which could harm Autodesk’s business and consolidated results of operations. In addition, product announcements by SGI and others in the past have caused customers to defer their decision to buy or determine not to buy Autodesk’s products. Moreover, products or technologies developed by others may render Autodesk’s products or technology noncompetitive or obsolete.

Some of Autodesk’s product development activities are 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 currently develop products for Autodesk, may not be able to provide development support in the future. Similarly, Autodesk may not be able to obtain and renew existing license agreements on favorable terms, or at all, which could harm Autodesk’s business.

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. Some developers may elect to support other products or otherwise experience disruption in product development and delivery cycles. This disruption in particular markets could negatively impact these third-party developers and end users, which could harm Autodesk’s business.

Marketing and Sales
Autodesk’s customer-related operations are divided into three geographic regions, the Americas, Europe and Asia Pacific, and are supported by a global marketing and sales organization, WWFO (worldwide field operations). This organization develops and manages overall marketing and sales programs and works closely with a network of domestic and foreign offices. Autodesk sells its software products primarily through distributors and 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 and periodic publications.

In addition, Autodesk works directly with reseller and distributor sales organizations, computer manufacturers, other software developers and peripheral manufacturers through cooperative advertising, promotions and trade-show presentations. Autodesk employs mass-marketing techniques such as webcasts, seminars, telemarketing, 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 reseller network. Other domestic sales are made principally to large corporations, governmental agencies, educational institutions and, for some low-end design products, to end-users. The majority of Autodesk’s international sales are made to resellers and distributors, which are supported by Autodesk’s foreign subsidiaries and international sales organizations. Some 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, could have a negative impact on foreign revenues. These foreign currency fluctuations, as well as any slowdowns in any of Autodesk’s geographical markets, could harm Autodesk’s business and adversely impact future 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 is not currently experiencing any material problems with its VAR network, computer software resellers 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. While no single customer accounted for more than 10 percent of Autodesk’s consolidated revenues in any of fiscal years 2000, 1999 or 1998, the loss of, or a significant reduction in, business with any one of Autodesk’s major international distributors or large U.S. resellers could harm Autodesk’s business.

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.

Customer and Reseller Support
Autodesk provides technical support and training to customers through a leveraged model, augmented by programs designed to address specific direct needs. We expect that end users rely primarily on their resellers and distributors for technical support. Autodesk supports the resellers and distributors through technical product training, sales training classes and direct telephone support. Support content is also available on the Product Support portion of the Autodesk Internet site. There are also a number of user group forums in which customers are able to share information.

While Autodesk expects the sales channel to provide the majority of technical support to its customers, it has developed programs to deliver direct support to certain customers. The Premier Support program enables large customers to purchase an annual support contract, which provides unlimited support for designated callers. In addition, Autodesk provides per-incident direct phone support to end users under the Safety Net Program. This is a fee-based program that allows customers to contact Autodesk directly.

Customer technical training is also leveraged through the authorized Autodesk Training Center, or ATC®, program; there are more than 700 independent ATC’s throughout the world. These accredited training centers offer in-depth education and training in computer-aided design skills on Autodesk products, as well as on related, independently developed software. Autodesk offers training sessions to its sales and training channels to maintain a professional level of technical expertise. Learning Assistance programs, which provide lessons related to design projects through an interactive multimedia tool, are provided with select 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 complementary products and industry-specific software solutions. 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, technical support and programming tools to developers who develop add-on applications for Autodesk products.

To support the growth of third-party developers, whose applications extend and enhance the functionality of Autodesk’s products worldwide, Autodesk operates the Autodesk Developer Network program, or ADN. The ADN is a business network comprised of qualified independent application developers and customers. This program provides sales, marketing and programming support, technical training and consulting. Autodesk believes that the availability and use of third party add-on products enhance sales opportunities for Autodesk’s core products.

Under the Autodesk Developer Channel, Autodesk offers two programs to third-party developers for the license of Autodesk software and technology. The Unique Application Reseller program, or UAR, permits selected software developer partners to sell and support Autodesk software when bundled with specifically defined vertical applications. The Original Equipment Manufacturer program, or OEM, provides the technology for qualified developers to create and deliver suites of scaleable products that focus on solving customer needs in specialized markets.
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. The design software market in particular is characterized by vigorous competition in each of the markets in which Autodesk competes, both by entry of competitors with innovative technologies and by consolidation of companies with complementary products and technologies. Some of Autodesk’s competitors have significantly greater financial, technical, sales and marketing, and other resources than Autodesk.

Autodesk believes that the principal factors affecting competition in its markets are product reliability, performance, ease of use, range of useful features, continuing product enhancements, reputation, price and training. In addition, the availability of third-party CAD 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, or FTC, had undertaken a nonpublic investigation to determine whether Autodesk or others have engaged in or are engaging in unfair methods of competition. In March 2000, the FTC notified Autodesk that the FTC had determined to conclude its investigation without taking any action.

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 harm Autodesk’s business.

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 harm Autodesk’s business.

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. In addition, Autodesk is a member and co-founder of the Business Software Alliance, 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.
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. Some 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.

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

The Discreet Division'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 Division may be impacted by the timing of the development and release of products by SGI. In addition, there may be unforeseen difficulties associated with adapting the Discreet Division's products to future SGI products. Moreover, although Autodesk has no reason to believe that the Discreet Division will be unable to obtain sufficient quantities of SGI workstations on a timely basis, the Discreet Division may not continue to be able to procure such workstations in sufficient quantities on a timely basis.

The Discreet Division is also dependent on SGI as the sole source for video I/O cards used in the systems. The Discreet Division 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, 2000, Autodesk had 3,024 full-time employees. Autodesk's future success is dependent in part on the ability to attract, retain and motivate highly qualified technical and management personnel, for whom competition is intense.

Item 2. Properties
Autodesk's executive offices and the principal offices for product development, domestic marketing and sales, and production are located in leased office space in northern California. Autodesk also leases office space in various locations throughout the U.S. 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
Autodesk 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 Autodesk's consolidated results of operations or its financial position. However, depending on the amount and timing, an unfavorable resolution of a matter could materially affect Autodesk's future results of operations or cash flows in a particular period.

In March 2000, a purported class action lawsuit was filed against Autodesk and some of its officers, alleging violations of the Securities Exchange Act of 1934. The plaintiffs seek to act on behalf of purchasers of Autodesk common stock during the period between September 14, 1998 and May 4, 1999. Autodesk believes that it has meritorious defenses to the complaint and intends to vigorously defend the action.
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 2000.

Executive Officers of the Registrant

The following sets forth certain information as of January 31, 2000 regarding the executive officers of Autodesk:

<table>
<thead>
<tr>
<th>Name</th>
<th>Age</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carol A. Bartz</td>
<td>51</td>
<td>Chairman, President and Chief Executive Officer</td>
</tr>
<tr>
<td>Joseph H. Astroth, Ph.D.</td>
<td>44</td>
<td>Executive Vice President, GIS Solutions Division</td>
</tr>
<tr>
<td>Steve Cakebread</td>
<td>48</td>
<td>Senior Vice President and Chief Financial Officer</td>
</tr>
<tr>
<td>Dominic J. Gallello</td>
<td>44</td>
<td>Executive Vice President, Design Solutions Division</td>
</tr>
<tr>
<td>Stephen McMahon</td>
<td>58</td>
<td>Senior Vice President, Human Resources and Facilities</td>
</tr>
<tr>
<td>John Sanders</td>
<td>47</td>
<td>Vice President, Internet</td>
</tr>
<tr>
<td>Marcia K. Sterling</td>
<td>56</td>
<td>Senior Vice President, Business Development, General Counsel, and Secretary</td>
</tr>
<tr>
<td>Godfrey R. Sullivan</td>
<td>46</td>
<td>Executive Vice President, Discreet Division</td>
</tr>
<tr>
<td>Michael E. Sutton</td>
<td>54</td>
<td>Executive Vice President, Worldwide Field Organization</td>
</tr>
</tbody>
</table>


Dr. Joseph H. Astroth joined Autodesk in January 1996 and serves as Executive Vice President, GIS Solutions Division. 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.

Steve Cakebread joined Autodesk in April 1997 and serves as Senior 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.

Dominic J. Gallello is currently the Executive Vice President of the Design Solutions Division. Previously, he was the Vice President of the MCAD Market Group. Mr. Gallello served as Vice President, Asia Pacific, from the time he joined Autodesk in October 1992 until July 1996.

Stephen McMahon joined Autodesk in July 1992 and serves as Senior Vice President, Human Resources and Facilities. From July 1987 to July 1992, Mr. McMahon served as Senior Director, Human Resources, for Apple Computer, Inc.

John Sanders was named Vice President, Internet, in October 1999. From March 1996 to October 1999 he served as Vice President of Worldwide Support & Services. Prior to joining Autodesk, Mr. Sanders spent 12 years at Apple Computer in a number of sales, support and marketing positions.

Marcia K. Sterling joined Autodesk in October 1995 and serves as Senior 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 is currently Executive Vice President of the Discreet Division. Previously, he was Vice President of the Personal Solutions Group. 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 currently serves as Executive Vice President, Worldwide Field Organization. Previously, Mr. Sutton served as Vice President, Europe/Middle East/Africa from June 1993 through September 1998.

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

Autodesk’s common stock is traded on the Nasdaq National Market under the symbol ADSK. The following table lists the high and low sales prices for each quarter in the last two fiscal years:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000 First Quarter</td>
<td>$43 ¾</td>
<td>$24 ½</td>
</tr>
<tr>
<td>2000 Second Quarter</td>
<td>$30 ½</td>
<td>$23 ¾</td>
</tr>
<tr>
<td>2000 Third Quarter</td>
<td>$26 ¾</td>
<td>$17 ½</td>
</tr>
<tr>
<td>2000 Fourth Quarter</td>
<td>$33 ¾</td>
<td>$18</td>
</tr>
<tr>
<td>1999 First Quarter</td>
<td>$49 ½</td>
<td>$39</td>
</tr>
<tr>
<td>1999 Second Quarter</td>
<td>$48 ½</td>
<td>$31 ¾</td>
</tr>
<tr>
<td>1999 Third Quarter</td>
<td>$35</td>
<td>$23</td>
</tr>
<tr>
<td>1999 Fourth Quarter</td>
<td>$48 ½</td>
<td>$29</td>
</tr>
</tbody>
</table>

Dividends

Autodesk paid quarterly dividends of $0.06 per share in fiscal 2000 and 1999 to Autodesk shareholders. Autodesk intends to continue paying regular cash dividends on a quarterly basis.

Sale of Securities

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

Stockholders

As of January 31, 2000 the approximate number of common stockholders of record was 1,192.

Item 6. Selected Financial Data

(in thousands, except per share data, percentages, and employees)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>For the Fiscal Year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net revenues</td>
<td>$820,182</td>
<td>$871,879</td>
<td>$768,684</td>
<td>$598,617</td>
<td>$618,164</td>
</tr>
<tr>
<td>Income from operations¹</td>
<td>763</td>
<td>142,087</td>
<td>94,994</td>
<td>65,296</td>
<td>84,113</td>
</tr>
<tr>
<td>Net income¹</td>
<td>9,808</td>
<td>97,132</td>
<td>56,215</td>
<td>42,247</td>
<td>43,647</td>
</tr>
<tr>
<td>At Year End</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>907,326</td>
<td>823,260</td>
<td>699,901</td>
<td>595,610</td>
<td>598,077</td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td>5,635</td>
<td>6,819</td>
<td>33,293</td>
<td>34,661</td>
<td>32,748</td>
</tr>
<tr>
<td>Common stock data</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic net income per share</td>
<td>$0.16</td>
<td>$1.72</td>
<td>$1.00</td>
<td>$0.77</td>
<td>$0.78</td>
</tr>
<tr>
<td>Diluted net income per share</td>
<td>0.16</td>
<td>1.64</td>
<td>0.94</td>
<td>0.74</td>
<td>0.74</td>
</tr>
<tr>
<td>Dividends paid per share</td>
<td>0.24</td>
<td>0.20</td>
<td>0.20</td>
<td>0.20</td>
<td>0.20</td>
</tr>
</tbody>
</table>

¹Fiscal 2000 results were impacted by non-recurring charges primarily related to acquisitions and a work force reduction.
Item 7. 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 “Risk Factors Which May Impact Future Operating Results.”

Business Combination and Basis of Presentation

In March 1999, Autodesk acquired Discreet in a business combination accounted for as a pooling of interests. Accordingly, all prior period consolidated financial statements presented have been restated to include the combined results of operations of Discreet as though it had always been a part of Autodesk. The transaction resulted in the issuance of an aggregate of approximately 10 million shares of Autodesk common stock in exchange for Discreet’s outstanding common stock.

Prior to the acquisition, Discreet’s fiscal year ended on June 30. As a result of differing year-ends, Autodesk’s consolidated statements of operations for the fiscal years ended January 31, 1999 and 1998 were combined with Discreet’s financial statements for the twelve months ended December 31, 1998, and the fiscal year ended June 30, 1998, respectively. As such, Discreet’s operating results for the period from January 1, 1998 to June 30, 1998 are duplicated in the consolidated statement of operations for the fiscal years ended January 31, 1999 and 1998. Discreet’s revenues, net income, basic net income per share and diluted net income per share were $75.9 million, $9.1 million, $0.16 and $0.15, respectively, for the period January 1, 1998 through June 30, 1998.

In addition, Discreet’s January 1999 results have been excluded from the consolidated statement of operations as a result of changing Discreet’s year-end to January 31. In January 1999, Discreet recognized net revenues of $3.8 million and incurred a net loss of $5.0 million.

Results of Operations

Net Revenues

Autodesk’s fiscal 2000 net revenues of $820.2 million decreased from $871.9 million in fiscal 1999. Increases in Asia Pacific’s net revenues of 32 percent were more than offset by decreases of 15 percent and 10 percent in net revenues in the Americas and Europe, respectively. The overall decrease in net revenues was primarily due to a decline in the sales of AutoCAD and AutoCAD LT. On a stand-alone basis, sales of AutoCAD and related upgrades accounted for 37 percent and 45 percent of Autodesk’s consolidated net revenues in fiscal 2000 and 1999, respectively.

The value of the U.S. dollar, relative to international currencies, did not have a significant impact on net revenues in fiscal 2000 compared to the same period in the prior fiscal year. International sales, including exports from the U.S., accounted for 65 percent of Autodesk’s fiscal 2000 revenues compared to 59 percent in the prior fiscal year.

Autodesk’s net revenues increased from $768.7 million in fiscal 1998 to $871.9 million in fiscal 1999. Revenues in the Americas and Europe increased 14 percent and 28 percent, respectively, from fiscal 1998, 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 Autodesk’s market groups. On a stand-alone basis, sales of AutoCAD and related upgrades accounted for 45 percent and 52 percent of Autodesk’s consolidated net revenues in fiscal 1999 and 1998, respectively. The value of the U.S. dollar, relative to international currencies, did not have a significant impact on net revenues in fiscal 1999 as compared to fiscal 1998.

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

Product returns, consisting principally of stock rotation, are recorded as a reduction of revenues and represented 5 percent, 4 percent and 6 percent of consolidated net revenues for fiscal 2000, 1999 and 1998, respectively. Management anticipates that the level of product returns in future periods will continue to be impacted by the timing of new product releases, as well as the quality and market acceptance of new products.

Cost of Revenues
Cost of revenues includes the purchase of disks and compact disks, cost of hardware sold (mainly workstations manufactured by Silicon Graphics, Inc.), cost of service contracts, costs associated with transferring Autodesk’s software to electronic media, printing of user manuals and packaging materials, freight, royalties, amortization of purchased technology and capitalized software, and, in certain foreign markets, software protection locks.

Cost of revenues increased from 15 percent of net revenues in fiscal 1999 to 18 percent in fiscal 2000. This increase was primarily due to (1) increases in royalties; (2) amortization of capitalized software for AutoCAD 2000, which was introduced in fiscal 2000; and (3) the April 1999 acquisition of VISION Solutions (“VISION”), which has relatively higher cost of revenues as a percentage of net revenues than other products.

Cost of revenues as a percentage of net revenues decreased to 15 percent in fiscal 1999 from 17 percent in fiscal 1998. The decrease was primarily due to lower royalties for licensed technology, a larger proportion of software as opposed to hardware sales, 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, software amortization costs, royalty rates for licensed technology and the geographic distribution of sales.

Marketing and Sales
Marketing and sales expenses include salaries, sales commissions, travel, and facility costs for Autodesk’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.

Marketing and sales expenses increased from 34 percent of net revenues in fiscal 1999 to 38 percent in fiscal 2000. The increase in spending was largely due to (1) increased advertising and promotional costs associated with the launch of several new and enhanced products introduced during fiscal 2000; (2) higher employee costs; and (3) incremental costs due to the acquisition of VISION.

Marketing and sales as a percentage of net revenues decreased slightly from 35 percent in fiscal 1998 to 34 percent in fiscal 1999. In fiscal 1998, marketing and sales expenses included costs related to the launch of AutoCAD Release 14 and other new and enhanced products.

Autodesk expects to continue to invest in marketing and sales of its products, to develop market opportunities and to promote Autodesk’s competitive position. Accordingly, Autodesk 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 and costs of computer equipment used in software development. Research and development costs increased from $157.1 million in fiscal 1999 to $164.0 million in fiscal 2000. The increase was primarily due to higher employee-related costs; higher costs related primarily to the Design 2000 family of products; increased costs associated with product translations; and incremental costs due to the acquisition of VISION.

Research and development costs increased from $136.8 million in fiscal 1998 to $157.1 million in fiscal 1999. The increase was primarily due to higher employee-related costs and incremental costs due to the acquisition of Genius CAD Software GmbH (“Genius”) in May 1998.
Autodesk anticipates that research and development spending will increase in fiscal 2001 as a result of product development efforts by Autodesk’s market groups and incremental personnel costs.

**General and Administrative**

General and administrative expenses include Autodesk’s information systems, finance, human resources, legal and other administrative operations. As a percentage of net revenues, general and administrative expenses were 16 percent, 13 percent and 11 percent in fiscal 2000, 1999 and 1998, respectively. The increases between years were primarily due to higher (1) employee-related expenses, (2) costs incurred to ensure that Autodesk’s infrastructure was year 2000 compliant, (3) consulting fees related to enhancing the information systems infrastructure, and (4) incremental costs related to acquisitions. Autodesk currently expects that in the coming year general and administrative expenses, as a percentage of net revenues, will remain relatively the same as in fiscal 2000.

**Amortization of Goodwill and Purchased Intangibles**

Amortization of goodwill and purchased intangibles increased from $28.7 million in fiscal 1999 to $30.6 million in fiscal 2000, primarily as a result of increased amortization expense arising from the April 1999 acquisition of VISION. Amortization of goodwill and purchased intangibles increased from $22.0 million in fiscal 1998 to $28.7 million in fiscal 1999, primarily as a result of the increased amortization expense arising from the May 1998 acquisition of Genius and other acquisitions that occurred during the middle of fiscal 1998. See “Business Combinations” below for additional discussion.

**Nonrecurring Charges**

Nonrecurring charges in fiscal 2000 ($34.7 million) consisted primarily of Discreet and VISION acquisition-related charges and a corporate restructuring that occurred during the third quarter. As a result of the restructuring, which involved the elimination of approximately 350 positions and related office closures, Autodesk is currently realizing quarterly savings of approximately $9.0 million. These savings are expected to last through the end of fiscal 2001 and will be reflected in each on-going cost and expense line item in the consolidated statement of operations. The savings will be offset over time by costs associated with, among other things, recent acquisitions and investments in related Internet entities.

Nonrecurring charges in fiscal 1999 ($19.7 million) consisted primarily of Genius acquisition-related charges and other charges that involved the consolidation of certain development centers, write-off of purchased technologies associated with these development centers and the elimination of 87 positions in Asia Pacific. The savings resulting from these activities were offset by costs associated with new businesses.

Nonrecurring charges in fiscal 1998 ($26.8 million) consisted primarily of Softdesk, Inc. (“Softdesk”), D-Vision Systems, Inc. (“D-Vision”) and other acquisition-related charges. These charges were offset by a gain on the sale of Autodesk’s interest in a network technology company and the reversal of certain lease-related reserves related to Discreet’s 1996 restructuring.

For additional information regarding the nonrecurring charges recorded over the past three fiscal years, see Note 10. Nonrecurring Charges in the Notes to Consolidated Financial Statements.

**Litigation Accrual Reversal**

In fiscal 1999, Autodesk reversed $18.6 million of accruals associated with litigation matters. Of the amount, $18.2 million related to final adjudication of a claim involving a trade-secret misappropriation brought by Vermont Microsystems, Inc.

**Interest and Other income**

Interest and other income, net was $23.2 million, $17.1 million and $11.7 million in fiscal 2000, 1999 and 1998, respectively. The fiscal 1999 balance includes Autodesk’s $2.7 million reversal of an interest accrual resulting from the closure of the Vermont Microsystems litigation matter, and a $1.3 million gain associated with the sale of various technical programs and intangible assets. Excluding these fiscal 1999 amounts, the increases in interest and other income, net between fiscal 2000 and 1999 and between fiscal 1999 and 1998 were largely due to increases in average cash and marketable securities balances resulting from cash provided by operating activities and common stock issuances.

**Provision for Income taxes**

Autodesk’s effective income tax rate, excluding the impact of nonrecurring charges, was 32.0 percent, 36.6 percent and 38.3 percent in fiscal 2000, 1999 and 1998, respectively. The effective tax rate for fiscal 2000 is less than the federal statutory rate of 35 percent due to the benefits associated with Autodesk’s foreign earnings which are taxed at rates different from the federal statutory rate, research credits and tax-exempt
interest, partially offset by non-deductible goodwill amortization. The fiscal 2000 rate is lower than the fiscal 1999 rate due to a relatively higher impact of these permanent items. The decrease in the effective income tax rate in fiscal 1999 compared to fiscal 1998 was due to incremental tax benefits associated with Autodesk’s foreign earnings, which are taxed at rates different from the U.S. statutory rate, and a reduction in the relative impact of amortization of certain intangible assets, partially offset by a reduction of the benefit from utilization of net operating losses. No tax benefit was recorded with regard to the nonrecurring charges incurred in connection with the Discreet and VISION acquisitions.

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

**Business Combinations**

In addition to the acquisition of Discreet, the following acquisitions occurred over the past three years.

**VISION**

On April 22, 1999, Autodesk acquired VISION, a vendor of enterprise automated mapping/facilities management/geographic information systems (AM/FM/GIS) solutions. Of the $26.0 million purchase price, which was paid in cash, $3.3 million represented the value of in-process research and development ("IPR&D") that had not yet reached technological feasibility and had no alternative future use, and as such, was expensed during fiscal 2000. Of the remaining purchase price, $17.6 million and $2.1 million were allocated to goodwill and other intangibles, respectively.

As of the acquisition date, the IPR&D consisted of the development of two products, VISION 5.3, which was 60 percent complete at the time, and VISION Electric 2.3, which was 39 percent complete. Both projects, which were originally expected to be completed in late fiscal 2000 at an aggregate cost to complete of $1.4 million, are expected to be introduced in fiscal 2001. At January 31, 2000, the estimated cost to complete both projects was less than $0.2 million.

In valuing the developed and in-process technologies at the acquisition date, Autodesk used a discounted cash flow analysis based on projected net revenues, cost of revenues, operating expenses and income taxes resulting from such technologies over a 4-year period. The projected financial results, which were discounted using a 20 percent rate for the developed technology and a 25 percent rate for the in-process technology, were based on expectations for VISION on a stand-alone basis and excluded any special synergistic benefits that Autodesk expected to achieve after the acquisition.

The revenue projections for the developed technologies, which considered the release dates of new products, assumed a gradual decline. The revenue projections for the IPR&D were based on expected trends in technology and the timing of new product introductions by Autodesk.

**Genius**

On May 4, 1998, Autodesk entered into an agreement with Genius, a German limited liability company, to purchase various mechanical CAD software applications and technologies. Autodesk accounted for this acquisition under the purchase method of accounting. Of the total purchase price of $68.9 million, which was paid in cash, $13.1 million was allocated to IPR&D and was expensed; $12.7 million was allocated to an intangible asset, purchased technology; and $41.6 million was allocated to goodwill.

As of the acquisition date, Genius had initiated the research and development effort related to product features and functionality that currently resides in (1) Genius AutoCAD and AutoCAD LT, (2) Genius Desktop, (3) Genius Vario and (4) Genius Modules product families. The research and development projects were in varying stages of completion, ranging from 20 percent to 45 percent complete as of the acquisition date, with total estimated costs of $1.5 million to reach technological feasibility at the time. The in-process projects were completed in fiscal 2000, at an aggregate amount approximately equal to the original estimated costs to complete.