UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the period ended September 30, 2000

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______________ to _______________

Commission file number 0-16230

STRUCTURAL DYNAMICS RESEARCH CORPORATION
(Exact name of registrant as specified in its charter)

Ohio	31-0733928
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2000 Eastman Drive, Milford, Ohio 45150
(Address of principal executive offices)
(Zip Code)

(513) 576-2400
(Registrant's telephone number, including area code)

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

Yes **[X]** No [ ]

As of October 31, 2000 there were 35,502,849 shares of the Registrant's Common Stock, without par value, issued and outstanding.

STRUCTURAL DYNAMICS RESEARCH CORPORATION

Form 10-Q for period ending September 30, 2000

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

STRUCTURAL DYNAMICS RESEARCH CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations
(Unaudited)
(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Revenue:				
Software licenses	$ 32,932	$ 42,416	$115,617	$135,208
Software maintenance and services	72,652	66,491	216,276	192,881
Total revenue	105,584	108,907	331,893	328,089
Cost of revenue:				
Cost of licenses	8,816	12,913	24,534	30,277
Cost of maintenance and services	40,590	38,626	125,596	108,445
Total cost of revenue	49,406	51,539	150,130	138,722
Gross profit	56,178	57,368	181,763	189,367
Operating expenses:				
Selling and marketing	30,491	30,505	88,253	91,203
Research and development	22,132	16,965	63,778	49,370
General and administrative	5,104	4,424	14,946	13,730
In-process research and development	--	2,350	--	2,350
Total operating expenses	57,727	54,244	166,977	156,653
Operating income	(1,549)	3,124	14,786	32,714
Other income, net	2,174	1,464	6,359	4,899
Income before income taxes	625	4,588	21,145	37,613
Income tax expense	329	2,051	8,229	14,271
Net income	$ 296	$ 2,537	$ 12,916	$ 23,342
Net income per share:				
Basic	$ .01	$ .07	$ .36	$ .65
Diluted	.01	.07	.35	.62
Comprehensive income	$ (1,707)	$ 3,538	$ 9,228	$ 21,762

See accompanying notes to consolidated financial statements.

STRUCTURAL DYNAMICS RESEARCH CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets
(in thousands)

Assets	September 30, 2000 (unaudited)	December 31, 1999
Current assets:		
Cash and cash equivalents	$140,017	$121,507
Marketable securities	17,569	12,003
Trade accounts receivable, net	93,686	91,288
Other accounts receivable	7,491	7,779
Prepaid expenses and other current assets	9,167	10,442
	267,930	243,019
Marketable securities	8,585	11,174
Property and equipment, at cost:		
Computer and other equipment	74,977	68,735
Office furniture and equipment	22,278	19,415
Leasehold improvements	10,329	8,322
	107,584	96,472
Less accumulated depreciation and amortization	82,900	72,871
Net property and equipment	24,684	23,601
Marketable software costs, net	60,605	60,832
Goodwill and other intangibles	49,031	42,164
Other assets	9,219	7,759
Total assets	$420,054	$388,549

See accompanying notes to consolidated financial statements.

STRUCTURAL DYNAMICS RESEARCH CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets
(in thousands, except per share data)

Liabilities and Shareholders' Equity	September 30, 2000 (unaudited)	December 31, 1999
Current liabilities:		
Accounts payable	$ 15,861	$ 16,812
Accrued expenses	56,353	54,545
Accrued income taxes	2,915	6,139
Deferred revenue	71,057	52,451
Total current liabilities	146,186	129,947
Long-term liabilities	7,565	8,685
Shareholders' equity:		
Common stock, stated value $.0069 per share Authorized 100,000 shares; outstanding shares- 36,273 and 35,592 net of 2,618 and 2,678 shares in treasury	252	247
Capital in excess of stated value	130,597	123,444
Retained earnings	143,682	130,766
Accumulated other comprehensive income:		
Foreign currency translation adjustment	(8,127)	(4,332)
Unrealized holding loss on marketable securities	(101)	(208)
Accumulated other comprehensive income	(8,228)	(4,540)
Total shareholders' equity	266,303	249,917
Total liabilities and shareholders' equity	$420,054	$388,549

STRUCTURAL DYNAMICS RESEARCH CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2000	1999
Cash flows from operating activities:		
Net Income	$ 12,916	$ 23,342
Adjustments to reconcile net income to net cash flows from operating activities:		
Amortization of computer software cost	14,289	10,704
Depreciation	9,526	8,875
Amortization of goodwill and acquired intangibles	7,430	3,844
Purchased in-process research and development	--	2,350
Net loss on sale of business and property	477	111
Other	(120)	(47)
Changes in assets and liabilities from operating activities:		
Accounts receivable	2,168	7,775
Prepaid expenses and other assets	1,596	3,113
Accounts payable and accrued expenses	(5,181)	(1,843)
Income taxes	(4,267)	1,778
Deferred revenue	14,027	11,793
Other long-term liabilities	197	409
Net cash provided by operating activities	53,058	72,204
Cash flows from investing activities:		
Purchases of marketable securities, net	(2,585)	(6,188)
Additions to property and equipment, net	(10,095)	(7,333)
Additions to marketable software costs	(12,702)	(18,553)
Acquisitions, net of cash acquired	(8,838)	(15,548)
Divestiture of certain operations	(873)	--
Net cash used in investing activities	(35,093)	(47,622)
Cash flows from financing activities:		
Issuance of common stock	6,334	4,236
Purchase of common stock	(1,994)	(4,762)
Net cash provided (used) by financing activities	4,340	(526)
Effect of exchange rate changes on cash	(3,795)	(1,341)
Increase in cash and cash equivalents	18,510	22,715
Cash and cash equivalents:		
Beginning of period	121,507	100,581
End of period	$140,017	$123,296

See accompanying notes to consolidated financial statements.

STRUCTURAL DYNAMICS RESEARCH CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(Unaudited)

(1) Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by SDRC pursuant to the rules and regulations of the Securities and Exchange Commission. As permitted by the rules of the Securities and Exchange Commission applicable to quarterly reports on Form 10-Q, these notes are condensed and do not contain all disclosures required by generally accepted accounting principles. In the opinion of management, these financial statements contain all adjustments (consisting of only normal recurring adjustments, unless otherwise noted) necessary to present fairly SDRC's financial position, results of operations and cash flows as of the dates and for the periods indicated. These financial statements should be read in conjunction with the Consolidated Financial Statements and related notes included in SDRC’s Annual Report on Form 10-K for the year ended December 31, 1999.

(2) Earnings Per Share

Basic and diluted earnings per common share are computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period, respectively. Dilutive common equivalent shares are calculated using the treasury stock method and consist of dilutive stock option grants.

The reconciliations of amounts used for the basic and diluted earnings per share calculations are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Net income (numerator)	$ 296	$ 2,537	$ 12,916	$ 23,342
Weighted average outstanding:				
Common shares (basic denominator)	36,271	35,875	36,020	35,736
Dilutive employee stock options	1,500	1,594	1,025	1,842
Common stock and dilutive common stock equivalents (diluted denominator)	37,771	37,469	37,045	37,578
Earnings per share:				
Basic	$ .01	$ .07	$ .36	$ .65
Diluted	$ .01	$ .07	$ .35	$ .62

Options to purchase 1,980 and 2,154 shares of common stock for the three and nine months ended September 30, 2000 and 1,976 and 1,916 shares of common stock for the three and nine months ended September 30, 1999 respectively, were not included in the computation of dilutive earnings per share because the options' exercise price was greater than the average market price of common shares.

(3) Acquisitions

In January 2000, SDRC acquired all the stock of Sherpa Systems Corporation ("Sherpa") and Inso France Development, SA ("IFD") from Inso Corporation. SDRC initially paid $5,000 in cash and assumed net liabilities of approximately $6,342. SDRC is also obligated to pay contingent, cash consideration dependent on final 1999 Sherpa operating activity and 2000 Sherpa products revenue. In July 2000, SDRC made a payment of approximately $2,700 toward the additional consideration. Current estimates of future payments do not exceed $3,000. The acquisition was recorded as a purchase and beginning January 2000, the operating results of Sherpa and IFD have been included in SDRC's operating results. Goodwill of approximately $14,190 has been recorded at September 30, 2000 and is being amortized over five years. The acquisition of Sherpa expanded SDRC's base of customers. SDRC has designed a technology transition path to migrate Sherpa users to Metaphase®.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

(in thousands)

SDRC is a leading developer and global marketer of collaborative software and service solutions for the product lifecycle. Customers use SDRC's software solutions to develop mechanical products and manage information about their products. SDRC's computer-aided design, computer-aided manufacturing and computer-aided engineering software tools are used to design products, analyze performance and program manufacturability. SDRC markets its integrated mechanical CAD/CAM/CAE software under the brand name I-DEAS®. Metaphase is SDRC's suite of Internet-enabled product knowledge management ("PKM") tools, which assists companies in tracking and distributing product information from inception to manufacturing and throughout the product lifecycle. In 2000, SDRC introduced Accelis™, a web-based, e-business integration framework to exchange product information among developers, suppliers, customers and other participants in a product's lifecycle. Complementing its software solutions, SDRC supports its customers with training, software implementation and consulting services through its professional services staff.

Certain statements in this Form 10-Q are forward looking statements that involve risks and uncertainties, including the timely availability and acceptance of new products, the impact of competitive products and pricing, the management of resources, and the other risks detailed from time to time in SDRC's Securities and Exchange Commission reports. SDRC's results could differ from those results described herein. Forward looking information should be evaluated in the context of these and other factors, some of which are described in more detail in "Factors That May Affect Future Results".

Revenue

SDRC's total revenue declined 3% for the three months ended September 30, 2000 compared to the corresponding 1999 quarter. Total maintenance and services revenue increased 9% while license revenue decreased 22% for the third quarter of 2000. Absent a 3% decline in revenue due to weaker European currencies against the US dollar for the 2000 quarter, total revenue would have remained flat as compared to the corresponding 1999 quarter. For the nine months ended September 30, 2000, total revenue increased 1% compared to the corresponding 1999 period. Increases in maintenance and services revenue of 12% over the 1999 period, offset a 14% decline in license sales in 2000.

CAD/CAM/CAE revenue represented 63% and 66% of total revenue for the three and nine months ended September 30, 2000. License sales of CAD/CAM/CAE declined 25% in the quarter ended September 30, 2000 compared to the corresponding 1999 quarter and 16% for the nine months ended September 30, 2000 compared to the 1999 period. The comparison to 1999 includes several significantly large automotive industry license sales in 1999, particularly in the third quarter. Lower CAD/CAM/CAE license revenue in 2000 reflected a slower, more mature market for high-end mechanical CAD products compared to the first nine months of 1999. CAD/CAM/CAE services and maintenance revenue grew 2% and 3% respectively, for the three and nine months ended September 30, 2000 compared to the corresponding 1999 periods. Revenue growth from maintenance for both the three and nine months in 2000 was offset by declines in consulting services revenue, compared to the corresponding 1999 periods. The increase in maintenance revenue was generated from supporting a larger CAD/CAM/CAE installed customer base.

PKM license revenue declined 19% in the quarter ended September 30, 2000 compared to the corresponding 1999 quarter and 11% for the nine months ended September 30, 2000 compared to the corresponding 1999 period. The PKM market is a relatively new and volatile market. Metaphase license sales are characterized by large order sizes and long sales cycles. For the first nine months of 2000, SDRC finalized several multi-million dollar Metaphase license orders. While the order sizes were larger in 2000 than in 1999, fewer orders were finalized through September 2000. PKM service and maintenance revenue grew 26% during the quarter ended September 30, 2000 compared to the prior year quarter. For the nine months ended September 30, 2000, PKM service and maintenance revenue grew 33% compared to the same period in 1999. This growth was driven by maintenance and services revenue from an expanded customer base. Since last year, the installed base of customers has grown through acquisitions and new license sales. Revenue from PKM products accounted for 34% and 30% of total revenue for the nine months ended September 30, 2000 and 1999, respectively. SDRC expects PKM revenue to become a larger portion of its total revenue in the future.

For the three months ended September 30, 2000 and 1999, revenue in North America accounted for 42% and 46%, Europe 37% and 36%, and Asia Pacific 21% and 18% respectively, of total revenue. An increase in PKM products revenue in Europe was partially offset by the devaluation of European currencies, as the U.S. dollar strengthened in the third quarter of 2000. The decrease in North America revenue for the quarter was due to a significant license sale from a large automotive supplier in the 1999 quarter that did not recur. For the nine months ended September 30, 2000 and 1999, revenue in North America accounted for 42% and 45%, Europe 36% and 33% and Asia Pacific 22% and 22%, respectively. SDRC expects the international market to continue to account for a significant portion of total future revenue.

Cost of Revenue

Cost of revenue consists principally of the staff and related costs associated with fee-based services and support for software maintenance contracts, amortization of goodwill, acquired intangibles and capitalized software costs, royalty fees paid to third parties under licensing agreements and the cost of distributing software products. Cost of revenue decreased 4% and increased 8% for the three and nine months ended September 30, 2000 respectively, compared to the three and nine months ended September 30, 1999. Cost of revenue represented 47% and 45% of revenue for the three and nine months ended September 30, 2000 respectively, compared to 47% and 42% of revenue for the corresponding three and nine month periods in 1999. For the first nine months of 2000, incremental costs of maintenance and services were greater than declines in the total cost of licenses.

The cost of licenses decreased 32% for the quarter ended September 30, 2000 and 19% for the nine months ended September 30, 2000 compared to the same periods in 1999. In the third quarter of 1999, cost of licenses included a non-recurring royalty charge of $4,200 paid to a third party supplier in connection with a major Metaphase license sale. Aside from this anomaly, third party royalties were lower in the 2000 quarter than the corresponding 1999 quarter, due to lower license sales. Due to recent acquisitions, the amortization of capitalized software, goodwill and acquired intangibles increased 52% for the third quarter of 2000 and 37% for the nine months ended September 30, 2000 compared to the corresponding 1999 periods. The cost of licenses, as a percentage of license revenue, was 27% and 21% for the three and nine month periods ended September 30, 2000 respectively, compared to 30% and 22% for the same periods in 1999. The decrease in third party royalties, particularly in the third quarter of 2000, more than offset the increase in the amortization of software, goodwill and other intangibles.

The cost of services and maintenance, as a percentage of related revenue, was 56% and 58% for the three and nine months ended September 30, 2000 respectively, compared to 58% and 56% for the corresponding periods in 1999. The cost of maintenance and services increased 5% and 16% for the three and nine months ended September 30, 2000 respectively, compared to the corresponding periods in 1999. The increases in 2000 are due to a 6% increase in customer support personnel as a result of product maintenance growth for both I-DEAS and Metaphase and a 5% increase in services personnel. Additionally, the use of outside contractors increased to support PKM customer implementation projects. Amortization of intangibles from recent acquisitions also contributed to the increase compared to last year.

Selling and Marketing Expenses

Selling and marketing expenses consist primarily of the compensation, travel and facility costs associated with the worldwide sales and marketing staff. These also include advertising cost, product localization and amortization of acquired trade names and customer lists. Selling and marketing expenses represented 29% of revenue for the quarter ended September 30, 2000 compared to 28% for the corresponding 1999 quarter. Total selling and marketing expenses remained flat for the quarter ended September 30, 2000 compared to the same period in 1999. Increases in bad debt reserves in Europe were offset by decreases in worldwide sales commissions and advertising costs compared to the prior year quarter. Selling and marketing costs for the nine months ended September 30, 2000 decreased 3% compared to the same prior year period. The decrease was primarily due to lower sales commissions associated with a decrease in license revenue and to a lesser extent, lower amounts paid for advertising costs.

Research and Development Expenses

Research and development expenses consist primarily of salaries, benefits, computer equipment and facility costs associated with the product development staff. They exclude costs which are capitalized in accordance with Statement of Financial Accounting Standards No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed.* Research and development expenses increased 30% and 29% for the three and nine months ended September 30, 2000 respectively, compared to the three and nine months ended September 30, 1999. The increase resulted primarily from a decline in the amount of software development cost capitalized. In the three and nine months ended September 30, 2000, SDRC capitalized $3,394 and $12,778 of software development cost respectively, compared to $6,269 and $18,303 in the corresponding 1999 periods. The substantial decrease in capitalization is due to the timing of extensive work on I-DEAS 8. Software capitalization for I-DEAS 8 began in late 1998 and ran through its release in June 2000, with the majority of the capitalization work being performed in the third and fourth quarter of 1999. In future periods, the amount of capitalized software development cost and accordingly, research and development expenses, may vary depending on the stage of development and the extent of functionality being performed on future product releases. The increase in research and development expense in 2000 is also, to a lesser extent, attributed to a 2% increase in product development staff and higher external consulting costs, both of which supported solutions for the e-business environment. Aggressive development of e-business collaboration software may require an increased investment in product development resources.

General and Administrative Expenses

General and administrative expenses consist of costs associated with the executive, finance, legal, human resource and corporate administrative staffs. General and administrative expenses represented 5% of revenue for the three and nine months ended September 30, 2000 and 4% of revenue for the three and nine months ended September 30, 1999. General and administrative expenses increased to $5,104 and $14,946 for three and nine months ended September 30, 2000 respectively, compared to $4,424 and $13,730 for the corresponding 1999 periods. The increases were a result of higher compensation, facility and equipment expenses. General and administrative expenses in the future are expected to remain a small percentage of total revenue.

Other Income, net

For three and nine months ended September 30, 2000, other income was $2,174 and $6,359 and reflects interest income from cash equivalents and marketable securities of $2,425 and $6,134 respectively.   In addition to interest income, other income in 2000 reflects a net gain of approximately $969 associated with the settlement of a lease obligation for an unoccupied building in the United Kingdom. During the first quarter of 2000, other income included a charge of approximately $1,400 for the divestiture of SDRC's Advanced Test & Analysis operations. Other income for three and nine months ended September 30, 1999 was $1,464 and $4,899 and consisted of interest income of $1,874 and $5,228 respectively. The increase in interest income during 2000 is due to higher yields on larger invested balances and includes $300 in additional interest received in the third quarter of 2000 related to refunds of prior year income taxes.

Taxes

The effective tax rate for three and nine months ended September 30, 2000, was 53% and 39% respectively, compared to 45% and 38% for the corresponding 1999 periods. The increase in the effective tax rate is primarily due to the non-deductible goodwill amortization associated with the TD Technologies, Inc. ("TD") acquisition in September 1999 and the Sherpa acquisition in January 2000.

Comprehensive Income

The differences between net income and comprehensive income were primarily due to unrealized gains and losses from the translation of foreign subsidiaries' balance sheets into U.S. dollars. For nine months ended September 30, 2000 the loss on currency translation was $3,795 as compared to $1,341 for the corresponding 1999 period due to the strengthening of the US dollar against the foreign currencies of the subsidiaries.

Acquisitions

In January 2000, SDRC acquired all the stock of Sherpa and IFD from Inso Corporation. SDRC initially paid $5,000 in cash and assumed net liabilities of approximately $6,342. SDRC is also obligated to pay contingent, cash consideration dependent on final 1999 Sherpa operating activity and 2000 Sherpa products revenue. The transaction was recorded as a purchase and beginning January 2000, the operating results of Sherpa and IFD have been included in SDRC's operating results. Goodwill of approximately $14,190 has been recorded at September 30, 2000 and is being amortized over five years. The acquisition of Sherpa expanded SDRC's base of customers. SDRC has designed a technology transition path to migrate Sherpa users to Metaphase.

Liquidity and Capital Resources

During the nine months ended September 30, 2000, SDRC generated $53,058 of cash from operating activities compared to $72,204 for the same period in 1999. Less operating cash was generated in 2000 compared to the 1999 period primarily due to lower operating income. Timing differences in vendor payments and prepaid expenses also contributed to the decrease in operating cash in 2000.

SDRC used $35,093 and $47,622 of cash for investing activities during the nine months ended September 30, 2000 and 1999, respectively. In 1999, SDRC spent $15,228, net of cash acquired, to purchase all the stock of Enterprise Software Products, Inc. (“ESP”) and paid $320 related to the TD acquisition. In January 2000, SDRC acquired Sherpa and IFD. As of September 30, 2000, SDRC used approximately $7,388 of cash for the acquisition of Sherpa and IFD and expects to pay up to $3,000 more to complete the acquisition during the next six months. In August 2000, SDRC paid $1,450 to acquire all the stock of New Technologies, Inc. (“NTI”). In March 2000, SDRC sold its Advanced Test & Analysis operations and agreed to make incentive payments to the acquirer for retaining key personnel to complete service contracts for SDRC. As of September 30, 2000, SDRC paid approximately $873 toward the incentive obligation and expects to make additional payments of approximately $328 to the acquirer over the next three months.

Cash provided from the issuance of common stock for employee stock incentive plans, net of treasury stock acquired, for nine months ended September 30, 2000 was $4,340. In September 2000, SDRC purchased 120 shares of its own common stock for $1,994 pursuant to the 1998 treasury stock repurchase program. During the first nine months of 1999, SDRC acquired 295 shares of its own common stock for $4,762. The repurchase program is funded from working capital and is intended to offset the issuance of shares under the existing employee stock plans.

At September 30, 2000, SDRC had cash and investments of $140,017 compared to $121,507 at December 1999. SDRC's net working capital was $121,744 at September 30, 2000. SDRC does not have any long-term debt obligations. SDRC uses portions of its cash and investments to purchase additional shares of its own stock or to acquire technology complementary to its product offerings. In October 2000, $9,067 was spent to acquire an additional 870 shares. The existing sources of liquidity and funds anticipated to be generated from operations are expected to provide adequate cash to fund SDRC's projected needs for the foreseeable future.

Factors That May Affect Future Results

Product Development

SDRC has embarked on a strategy to expand its product line coverage for visualization features, data exchange functionality, Internet operable design and expedient Metaphase implementation tools. The markets for these initiatives, and the entire collaborative product development industry, are highly competitive and characterized by rapid technological change, shifting customer needs and continual innovation. SDRC's success is dependent on its ability to anticipate user needs and to keep pace with new technological developments which customers need. SDRC and its competitors are spending significant resources to develop Internet-based collaboration tools. In March 2000, SDRC announced a new product brand, Accelis, which will be the foundation for SDRC’s line of e-business integration tools. The speed and degree that SDRC can develop and market Internet-operable data exchange and other e-business features through Accelis and its other product lines, will affect future operating results.

SDRC has committed to providing certain enhancements and integrations to customers within aggressive time frames. Failure to meet these time frames could result in delayed or lost revenue opportunities. SDRC relies on highly skilled technical and other key employees who are competitively recruited within the software industry. Additionally, SDRC relies, to a lesser degree, on third parties for development. Failure to attract and retain key personnel and maintain important third party relationships could have an adverse impact on future operating results.

Sales Execution

SDRC’s sales approach emphasizes enterprise-wide collaboration solutions, which include software licenses, support and consulting services, primarily to large customer accounts. During 1999, the Company initiated a new selling strategy, called SDRC’s Partnership for Competitive Excellence (“SPACE”), deployed as a means to invigorate its selling efforts to large, enterprise-wide opportunities. Enterprise solution sales are complex and the sales process and approval cycles can be lengthy. Historically, a significant portion of SDRC’s revenue is generated from shipments in the last month of a quarter. Failure to close a few large orders in a particular quarter may negatively impact operating results. In addition, higher volumes of orders have been experienced in the fourth quarter. The concentration of orders toward the end of the period makes projections of quarterly financial results difficult. SDRC usually ships software licenses within one to two weeks after receipt of a customer order. Orders may exist at the end of a quarter, which have not been shipped; however, the value of such orders is not indicative of revenue results for any future period.

SDRC sells its products through a common direct sales force. As SDRC moves to enterprise solution selling, more effort is needed through greater sales management involvement. Accordingly, organizational execution, sales force training and related issues could hinder the sales force’s ability to secure customer accounts to the extent planned. Besides its own sales force, SDRC continues to rely on distributors, representatives and value-added resellers to sell a significant portion of its software licenses. Changes with a distributor, representative or value-added reseller, or disruptions in the internal sales organization could have a significant impact on operating results in a quarter.

Product Markets

SDRC derives most of its revenue from selling software products and services to the high-end users in the mechanical collaborative product design market. SDRC invests resources in product development, selling, marketing and customer service opportunities with the expectation of revenue growth and incremental earnings. SDRC expects the Internet to continue to grow as a medium of commerce. If manufacturers and their product partners do not adopt the Internet for product data exchange, or adopt it slower than expected, revenues will be less than expected. Likewise, if market growth rates for the CAD/CAM/CAE or PKM markets are less than forecasted, SDRC's license revenue growth, as well as maintenance and services revenue growth, are likely to be less than expected. Market growth, and SDRC's ability to match resource levels with revenue levels, will directly impact its future operating results. SDRC's operating expense levels are planned, in part, on forecasted revenue, and expense levels are generally committed in advance. Since expenses are relatively fixed in the near term, future operating results will be impacted by SDRC’s ability to convert invested outlays into expected revenue at profitable margins.

International Business

A significant portion of SDRC's revenues is from international markets. As a result, SDRC's financial results could be impacted by weakened general economic conditions, differing technological advances or preferences, volatile foreign exchange rates and government trade restrictions in any country in which SDRC does business. SDRC has invested sizable resources in the Asia Pacific region, particularly in Japan and South Korea. Economic instability in this region could lead to an adverse impact on SDRC’s operation results and financial position.

Technology Investment

Over the past two years, SDRC has purchased software technology and spent significant internal resources to develop new functionality. SDRC acquired Imageware Corporation, TD, ESP, Sherpa and NTI with the objective of extending its CAD/CAM/CAE and PKM product offerings and expanding its customer base. Additionally, SDRC capitalized approximately $33,000 of internal development cost for I-DEAS, its latest version of web-enabled CAD/CAM/CAE software, released in June 2000. These investments have resulted in increased amortization expenses for capitalized software, goodwill and other acquired intangible assets, which will continue over the next few years. In addition to these investments, SDRC may acquire additional technologies that have strategic benefit. The effect on future earnings will depend, in part, on SDRC's ability to integrate the purchased technology and advance it for SDRC's customers. Market growth and sales expansion must be sufficient to cover a higher fixed cost structure or operating results will be negatively impacted. If operating results are continually less than planned, SDRC’s ability to recover the carrying value of an intangible may be impaired. Under such circumstances, SDRC will review the operating results and expected cash flows associated with the related intangible. If the fair value of the intangible is less than the carrying value, an impairment charge will be recorded against net operating income in the period the impairment is determined.

Stock Market Volatility

The trading price of SDRC's stock, like other software and technology stocks, is subject to significant volatility. If revenue or earnings fail to meet investors' expectations, there could be an immediate and significant adverse impact on the trading price of SDRC's stock. In addition, SDRC's stock price may be affected by broader market factors that may be unrelated to SDRC's performance.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

There have not been any significant changes to SDRC's financial market risk exposure since filing of the 1999 Annual Report on Form 10-K.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

a) Exhibits

10 Form of Severance Compensation Agreement contracted with each executive officer, amended August 2000.

27 Financial data schedule for the period ended September 30, 2000, filed herewith.

b) No report on Form 8-K was filed during the third quarter of 2000.

SIGNATURE

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.

STRUCTURAL DYNAMICS RESEARCH CORPORATION

Date: November 13, 2000

By: /s/ Jeffrey J. Vorholt
Jeffrey J. Vorholt,
Vice President,
Chief Financial Officer and Treasurer

* Pursuant to the last sentence of General Instruction G to Form 10-Q, Mr. Jeffrey J. Vorholt has executed this Quarterly Report on Form 10-Q both on behalf of the registrant and in his capacity as its principal financial and accounting officer.

EXHIBIT 10

SEVERANCE COMPENSATION AGREEMENT

THIS AGREEMENT, dated as of ________, is between Structural Dynamics Research Corporation, an Ohio corporation (the "Company") and _____________ (the "Executive").

The Company's Board of Directors has determined that it is appropriate to reinforce and encourage the continued attention and dedication of members of the Company's management to their assigned duties without distraction in potentially disturbing circumstances arising from the possibility of a change in control of the Company.

This Agreement sets forth the severance compensation which the Company agrees it will pay to the Executive if the Executive's employment with the Company terminates under one of the circumstances described herein following a Change in Control of the Company (as defined herein).

1. Term. This Agreement shall terminate, except to the extent that any obligation of the Company hereunder remains unpaid as of such time, upon the earliest of (i) _______ 30 of any year after 20__, provided that either party has given at least 60 days prior written notice to the other party of its or his intention to terminate this Agreement under this clause (i); (ii) the termination of the Executive's employment with the Company based on death, Disability (as defined in Section 3(b)) and Retirement (as defined in Section 3(c)) or Cause (as defined in Section 3(d)) or by the Executive other than for Good Reason (as defined in Section 3(e)); and (iii) two-years from the date of a Change in Control of the Company if the Executive has not terminated his employment for Good Reason as of such time.

2. Change in Control. No compensation shall be payable under this Agreement unless and until (a) there shall have been a Change in Control of the Company, while the Executive is still an employee of the Company and (b) the Executive's employment by the Company thereafter shall have been terminated in accordance with Section 3. For purposes of this Agreement, a Change in Control of the Company shall be deemed to have occurred if:

   (i) there shall be consummated any consolidation or merger of the Company and, as a result of such consolidation or merger (x) less than 50% of the outstanding common shares and 50% of the voting shares of the surviving or resulting corporation are owned, immediately after such consolidation or merger, by the owners of the Company's common shares immediately prior to such consolidation or merger, or (y) any person (as such term is used in Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of 20% or more of the surviving or resulting corporation's outstanding common shares, or

   (ii) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company shall be consummated, or

(iii) the shareholders of the Company shall approve any plan or proposal for the liquidation or dissolution of the Company, or

(iv) any person (as such term is used in Section 13(d) and 14(d)(2) of the Exchange Act) shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of 20% or more of the company's outstanding common, or

(v) during any period of two consecutive years, individuals who at the beginning of such period constitute the entire Board of Directors shall cease for any reason to constitute a majority thereof unless the election or the nomination for election by the Company's shareholders of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period.

3. Termination Following Change in Control.

(a) If a Change in Control of the Company shall have occurred while the Executive is still an employee of the Company, the Executive shall be entitled to the compensation provided in Section 4 upon the subsequent termination of the Executive's employment with the Company by the Executive or by the Company unless such termination is as a result of (i) the Executive's death; (ii) the Executive's Disability (as defined in Section 3(b) below); (iii) the Executive's Retirement (as defined in Section 3(c) below); (iv) the Executive's termination by the Company for Cause (as defined in Section 3(d) below); or (v) the Executive's decision to terminate employment other than for Good Reason (as defined in Section 3(e) below).

(b) Disability. If, as a result of the Executive's incapacity due to physical or mental illness, the Executive shall have been absent from his duties with the Company on a full-time basis for six months and within 30 days after written notice of termination is thereafter given by the Company the Executive shall not have returned to the full-time performance of the Executive's duties, the Company may terminate this Agreement for "Disability."

(c) Retirement. The term "Retirement" as used in this Agreement shall mean termination by the Company or the Executive of the Executive's employment based on the Executive's having reached age 65 or such other age as shall have been fixed in any arrangement established with the Executive's consent with respect to the Executive.

(d) Cause. The Company may terminate the Executive's employment for Cause. For purposes of this Agreement only, the Company shall have "Cause" to terminate the Executive's employment hereunder only on the basis of fraud, misappropriation or embezzlement on the part of the Executive. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Company's Board of Directors at a meeting of the Board called and held for the purpose (after reasonable notice to the Executive and an opportunity for the Executive, together with the Executive's counsel, to be heard before the Board), finding that in the good faith opinion of the Board the Executive was guilty of conduct set forth in the second sentence of this Section 3(d) and specifying the particulars thereof in detail.

(e) Good Reason. The Executive may terminate the Executive's employment for Good Reason at any time during the term of this Agreement. For purposes of this Agreement "Good Reason" shall mean any of the following (without the Executive's express written consent):

(i) the assignment to the Executive by the Company of duties inconsistent with the Executive's position, duties, responsibilities and status with the Company immediately prior to a Change in Control of the Company, or a change in the Executive's titles or offices as in effect immediately prior to a Change in Control of the Company, or any removal of the Executive from or any failure to reelect the Executive to any of such positions, except in connection with the termination of his employment for Disability, Retirement or Cause or as a result of the Executive's death or by the Executive other than for Good Reason;

(ii) a reduction by the Company in the Executive's base salary as in effect on the Date of Termination;

(iii) any failure by the Company to continue in effect any benefit plan or arrangement (including, without limitation, the Company's retirement plan, group life insurance plan, and medical, dental, accident and disability plans) in which the Executive is participating at the time of a Change in Control of the Company (or any other plans providing the Executive with substantially similar benefits) (hereinafter referred to as "Benefit Plans"), or the taking of any action by the Company which would adversely affect the Executive's participation in or materially reduce the Executive's benefits under any such Benefit Plan or deprive the Executive of any material fringe benefit enjoyed by the Executive at the time of a Change in Control of the Company;

(iv) any failure by the Company to continue the Executive's eligibility to participate in annual executive bonus arrangements in which the Executive plans or arrangements providing him with substantially similar benefits) (hereinafter referred to as "Incentive Plans") or the taking of any action by the Company which would significantly reduce the Executive's opportunity to earn incentive compensation which is related to performance results as compared to performance exceptions periodically determined by the Company;

(v) a relocation of the Company's principal executive offices to a location outside of Cincinnati, Ohio, or the Executive's relocation to any place other than the location at which the Executive performed the Executive's duties prior to a Change in Control of the Company, except for required travel by the Executive on the Company's business to an extent substantially consistent with the Executive's business travel obligations at the time of a Change in Control of the Company;

(vi) any failure by the Company to provide the Executive with the number of paid vacation days to which the Executive is entitled at the time of a Change in Control of the Company;

(vii) any material breach by the Company of any provision of this Agreement;

(viii) any failure by the Company to obtain the assumption of this Agreement by any successor or assign of the Company; or

(ix) any purported termination of the Executive's employment which is not effected pursuant to a Notice of Termination satisfying the requirements of Section 3(f), and for purposes of this Agreement, no such purported termination shall be effective.

(f) <u>Notice of Termination</u>. Any termination by the Company pursuant to Section 3(b), 3(c) or 3(d) shall be communicated by a Notice of Termination. For purposes of this Agreement, a "Notice of Termination" shall mean a written notice which shall indicate those specific termination provisions in this Agreement relied upon and which sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. For purposes of this Agreement, such purported termination by the Company shall be effective without such Notice of Termination.

(g) <u>Date of Termination</u>. "Date of Termination" shall mean (a) if this Agreement is terminated by the Company for Disability, 30 days Notice of Termination is given to the Executive (provided that the Executive shall not have returned to the performance of the Executive's duties on a full-time basis during such 30-day period) or (b) if the Executive's employment is terminated by the Company for any other reason, the date on which a Notice of Termination is given; provided that if within 30 days after any Notice of Termination is given to the Executive by the Company the Executive notifies the Company that a dispute exists concerning the termination, the Date of Termination shall be the date the dispute is finally

(h) determined, whether by mutual agreement by the parties or upon final judgment, order or decree of a court of competent jurisdiction (the time for appeal therefrom having expired and no appeal having been perfected).

4. Compensation Under this Agreement.

(a) If within two years after a Change in Control of the Company a Notice of Termination is given either by the Company to the Executive or by the Executive to the Company, and if such termination is not by reason of the Executive's death, Disability or Retirement, or by the Company for Cause, or by the Executive other than for Good Reason, the Company shall make the following payments to the Executive:

(i) the full base salary to which the Executive is entitled through the Date of Termination;

(ii) credit for unused vacation;

(iii) an amount equal to the Executive's EICP Bonus Award under the Company's Executive Incentive Compensation Plan for the fiscal year in which the Notice of Termination is given, multiplied by the percentage determined by dividing the number of days in the Company's fiscal year that have elapsed prior to the date on which the Notice of Termination is given by the total number of days in such fiscal year. As used in this clause (iii) the Executive's Annual EICP Bonus Award means the dollar amount which would have been paid to Executive for the fiscal year in which the Notice of Termination is given under the Company's Executive Incentive Compensation Plan, based on the assumption that the Outstanding Level of performance would be reached by the Company and the Executive.

(iv) an amount equal to two and one-half (2.5) times the sum of the Executive's annualized base salary and EICP Bonus Award (as defined in clause (iii) above) for the year in which the Notice of Termination is given, provided, however, that the amounts to be paid to the Executive under this clause (iv) shall be reduced by the amounts payable to the Executive under clauses (ii) and (iii) of this Section 4(a).

(b) If it is finally determined under the procedures set forth in Section 4(c) that the amount of "excess parachute payments," if any, exceeds the Executive's "base amount" (as such terms are defined in Section 280G of the Internal Revenue Code of 1986 (the "Code")) by more than 3 times, the aggregate amount of the payments required to be made by the Company under clauses (iv), (iii) and (ii) of Section 4(a) that constitute excess parachute payments shall be reduced, in that order, to $100 less than the largest amount that will result in no portion of such payment being subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax").

(c) The Company shall notify the Executive in writing within 10 days after a Notice of Termination is given either by the Company or the Executive, of the amount of the payments to be made by the Company under this Agreement, together with any other payments made or to be made by the Company to the Executive, that constitute "parachute payments" (as such terms are defined in Section 280G of the Code) and excess parachute payments and of the amount of the reduction, if any, required by Section 4(b). Within 20 days after the Notice of Termination is given, the Executive shall notify the Company in writing whether he agrees with the Company's calculation of the amount of parachute payments and excess parachute payments, and with the amount of any reduction. If the Executive does not agree with the Company's calculations, the Executive shall inform the Company of the amounts that he believes to be the correct amounts. If the Company and the Executive cannot agree within 30 days after the Notice of Termination is given on the amount of the parachute payments and excess parachute payments, and on the amount of any reduction, the calculation of such amounts (and any reduction) shall be made by independent tax counsel selected by the Company's independent auditors. Such determination shall be completed within 15 days after it is submitted to such independent tax counsel and shall be conclusive and binding on the parties.

(d) The amounts requires to be paid under Section 4(a), less the amount of any reduction determined by the Company under Section 4(b) and 4(c), shall be paid by the Company to the Executive in cash in a lump sum on the 10th day after the Date of Termination. If it is later determined, under the procedure set forth in Section 4(c), that the amount of any reduction is less than that initially determined by the Company, the Company shall pay the difference to the Executive in cash within five days after the amount of any reduction is finally determined. If it is later determined, under the procedures set forth in Section 4(c), that the amount of any reduction is more than that initially determined by the Company, the Executive shall repay the difference to the Company in cash within five days after the amount of any reduction is finally determined.

(e) Any payments required under this Section 4 shall be paid net of applicable federal, state and local tax withholding.

(f) If the Company is required to make payments to the Executive under Section 4(a), the Company, until the earlier of (i) one year after the Date of Termination or (ii) commencement of full-time employment by the Executive with a new employer, shall maintain in full force and effect, for the continued benefit of the Executive, medical and dental programs or arrangements in which the Executive was entitled to participate immediately prior to the Date of Termination, provided that continued participation by the Executive is possible under the general terms and provisions of such plans and programs.

(g) Except for the payment referred to in clause (i) of Section 4(a) none of the payments to the Executive under this Section 4 shall be counted for the purpose of computing the Executive's benefits under any pension, profit sharing, deferred compensation or other employee benefit plan maintained by the Company.

(h) The parties acknowledge that Executive holds one or more stock purchase options granted under the Company's 1994 Long-Term Stock Incentive Plan (the "Plan"). The individual stock option agreements representing such options set forth the specific time periods and other terms under which the options vest (become exercisable), subject to the overall provisions of the Plan. Under the last sentence of Section 5(b) of the Plan, the Compensation Committee of the Company's Board of Directors is authorized to modify the vesting provisions of options outstanding under the Plan. Under the authority and direction of the Compensation Committee acting under Section 5(b) of the Plan, all options held by Executive under the Plan are hereby amended to include the following sentence: "Notwithstanding any other provisions of this Option, this Option shall immediately become fully vested and exercisable as to all shares covered hereby upon the occurrence of a Change in Control (as such term is defined in that certain Severance Compensation Agreement dated _______________ between the Company and the Optionee). Such immediate vesting shall occur regardless of whether the Optionee remains employed by the Company after such Change in Control or is terminated (involuntarily or voluntarily) as a result of or following such Change in Control." This Agreement shall constitute the instrument of amendment of all such options, and no other documentation or action shall be required to effect such amendments.

5. <u>No Obligation to Mitigate Damages; No Effect on Other Contractual Rights</u>.

The provisions of this Agreement, and any payment provided for hereunder, shall not reduce any amounts otherwise payable, or in any way diminish the Executive's existing rights, or rights which would accrue solely as a result of the passage of time, under any Benefit Plan, Incentive Plan or Securities Plan, employment agreement or other contract, plan or arrangement.

6. Successor to the Company.

(a) The Company will require any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to the Executive, expressly, absolutely and unconditionally to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if such succession or assignment had not taken place. Any failure of the Company to obtain such agreement prior to the effectiveness of any such succession or assignment shall be a material breach of this Agreement and shall entitle the Executive to terminate the Executive's employment for Good Reason. As used in this Agreement, "Company" shall mean the Company as herein before defined and any successor or assign to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this Section 6 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law. If at any time during the term of this Agreement the Executive is employed by any corporation a majority of the voting securities of which is then owned by the Company, "Company" as used in Section 3, 4, 11 and 12 hereof shall in addition include such employer. In such event, the Company agrees that it shall pay or shall cause such employer to pay any amounts owed to the Executive pursuant to Section 4 hereof.

(b) This Agreement shall inure to the benefit of and be enforceable by the Executive's personal and legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive should die while any amounts are still payable to him hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Executive's devisee, legatee, or other designee or, if there be no such designee, to the Executive's estate.

7. Notice. For purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States certified or registered mail, return receipt requested, postage prepaid, as follows:

If to the Company:

Structural Dynamics Research Corporation
Vice President, Secretary and General Counsel
2000 Eastman Drive
Milford, OH 45150

If to the Executive:

or such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

8. Miscellaneous. No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by the Executive and the Company. No waiver by either party hereto at anytime of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement. This Agreement shall be governed by and construed in accordance with the laws of the State of Ohio.

9. Validity. The invalidity or unenforceability of any provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

10. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

11. Legal Fees and Expenses. The Company shall pay all legal fees and expenses which the Executive may incur as a result of the Company's contesting the validity, enforceability or the Executive's interpretation of, or determinations under, this Agreement.

12. Confidentiality. The Executive shall retain in confidence any and all confidential information known to the Executive concerning the Company and its business so long as such information is not otherwise publicly disclosed.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

ATTEST:

_______________________________ By: ____________________________

By: ____________________________
Vice President, Secretary and
General Counsel