

AUTODESK, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AUTODESK, INC.
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)
(RESTATED)

	THREE MONTHS ENDED OCTOBER 31,		NINE MONTHS ENDED OCTOBER 31,	
	1998	1997	1998	1997
Net revenues	\$177,178	\$162,195	\$551,022	\$435,275
Costs and expenses:				
Cost of revenues	18,250	17,656	56,648	52,614
Marketing and sales	63,910	60,215	194,608	171,571
Research and development	37,259	33,050	107,769	91,085
General and administrative	31,132	22,976	90,718	64,384
Nonrecurring charges	-	-	21,985	22,187
Litigation accrual reversal	-	-	(18,200)	-
	150,551	133,897	453,528	401,841
Income from operations	26,627	28,298	97,494	33,434
Interest and other income, net	2,340	2,617	10,986	7,391
Income before income taxes	28,967	30,915	108,480	40,825
Provision for income taxes	10,593	11,787	42,974	23,144
Net income	\$ 18,374	\$ 19,128	\$ 65,506	\$ 17,681
Basic net income per share	\$0.40	\$0.41	\$1.41	\$0.38
Diluted net income per share	\$0.39	\$0.37	\$1.34	\$0.35
Shares used in computing basic net income per share	46,510	47,160	46,510	47,050
Shares used in computing diluted net income per share	47,360	51,480	48,760	50,350

See accompanying notes.

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

	October 31, 1998	January 31, 1998
	(Unaudited)	(Audited)
Current assets:		
Cash and cash equivalents	\$ 76,640	\$ 96,089
Marketable securities	261,032	100,399
Accounts receivable, net	89,603	60,856
Inventories	6,667	7,351
Deferred income taxes	25,296	27,577
Prepaid expenses and other current assets	19,842	15,430
	-----	-----
Total current assets	479,080	307,702
	-----	-----
Marketable securities, including a restricted balance of \$18,000 at January 31, 1998	-	104,831
Computer equipment, furniture, and leasehold improvements, at cost:		
Computer equipment and furniture	125,344	117,434
Leasehold improvements	22,647	20,505
Less accumulated depreciation	(108,831)	(98,800)
	-----	-----
Net computer equipment, furniture, and leasehold improvements	39,160	39,139
Purchased technologies and capitalized software, net	34,640	33,373
Goodwill, net	72,946	44,982
Deferred income taxes	14,063	13,782
Other assets	22,656	19,681
	-----	-----
	\$ 662,545	\$563,490
	=====	=====

See accompanying notes.

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

	October 31, 1998	January 31, 1998
	(Unaudited)	(Audited)
Current liabilities:		
Accounts payable	\$ 29,660	\$ 26,417
Accrued compensation	37,940	34,962
Accrued income taxes	92,685	76,465
Deferred revenues	16,735	18,934
Other accrued liabilities	50,507	42,709
	-----	-----
Total current liabilities	227,527	199,487
	-----	-----
Deferred income taxes	499	481
Litigation accrual	-	29,328
Other liabilities	2,120	1,255
Stockholders' equity:		
Common stock	345,735	299,315
Retained earnings	87,266	50,279
Foreign currency translation adjustment	(602)	(16,655)
	-----	-----
Total stockholders' equity	432,399	332,939
	-----	-----
	\$662,545	\$563,490
	=====	=====

See accompanying notes.

AUTODESK, INC.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)
(RESTATED)

	NINE MONTHS ENDED OCTOBER 31,	
	1998	1997
	-----	-----
Operating activities		
Net income	\$ 65,506	\$ 17,681
Adjustments to reconcile net income to net cash provided by operating activities:		
Charge for acquired in-process research and development	13,100	22,187
Depreciation and amortization	40,127	35,805
Litigation accrual reversal	(20,900)	-
Net gain on disposition of business unit	(1,307)	-
Write-off of purchased technology	2,233	-
Changes in operating assets and liabilities	(10,952)	26,344
	-----	-----
Net cash provided by operating activities	87,807	102,017
	-----	-----
Investing activities		
Net purchases of marketable securities	(55,802)	(45,580)
Business combinations, net of cash acquired	(69,279)	(5,766)
Net purchases of computer equipment, furniture, and leasehold improvements	(11,369)	(10,520)
Proceeds from disposition of business unit	5,137	-
Purchases of software technologies, capitalization of software costs, and other	(7,632)	(11,302)
	-----	-----
Net cash used in investing activities	(138,945)	(73,168)
	-----	-----
Financing activities		
Proceeds from issuance of common stock	74,677	74,327
Repurchase of common stock	(48,866)	(116,132)
Dividends paid	(8,394)	(8,557)
	-----	-----
Net cash provided by (used in) financing activities	17,417	(50,362)
	-----	-----
Effect of exchange rate changes on cash	14,272	(277)
	-----	-----
Net decrease in cash and cash equivalents	(19,449)	(21,790)
Cash and cash equivalents at beginning of year	96,089	64,814
	-----	-----
Cash and cash equivalents at end of quarter	\$ 76,640	\$ 43,024
	=====	=====
Supplemental cash flow information:		
Cash paid during the period for income taxes	\$ 6,642	\$ 5,071
	=====	=====
Supplemental noncash information:		
Common stock received in relation to the equity collar (see Note 5)	\$ 4,265	\$ -
	=====	=====
Common stock issued in connection with the acquisition of Softdesk, Inc.	\$ -	\$ 92,021
	=====	=====

See accompanying notes.

AUTODESK, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The condensed consolidated financial statements at October 31, 1998 and for the three- and nine- month periods then ended are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The condensed consolidated financial statements at October 31, 1998 should be read in conjunction with the consolidated financial statements, as restated, and notes thereto, together with management's discussion and analysis of financial condition and results of operations, contained in the Company's Annual Report to Stockholders incorporated by reference in the Company's Annual Report on Form 10-K/A for the fiscal year ended January 31, 1998. The results of operations for the three and nine months ended October 31, 1998 are not necessarily indicative of the results for the entire fiscal year ending January 31, 1999.

On March 31, 1997, Autodesk acquired Softdesk, Inc. ("Softdesk"), a leading supplier of AutoCAD-based applications software for the architecture, engineering, and construction market, and on May 4, 1998, acquired from Genius CAD Software GmbH ("Genius") various mechanical computer-aided-design software and technologies. Both of these acquisitions were accounted for as business combinations using the purchase method of accounting. In accordance with Accounting Principles Board Opinion No. 16, "Accounting for Business Combinations," the costs of these acquisitions were allocated to the assets acquired and the liabilities assumed (including in-process research and development) based on their estimated fair values using valuation methods believed to be appropriate at the time. The amounts allocated to in-process research and development of \$55.1 and \$28.8 million for Softdesk and Genius, respectively, were expensed in the periods in which the acquisitions were consummated in accordance with FASB Interpretation No. 4, "Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method." Subsequent to the Securities and Exchange Commission's letter to the AICPA dated September 9, 1998, regarding its views on in-process research and development ("IPR&D"), the Company has re-evaluated its IPR&D charges on the Softdesk and Genius acquisitions, revised the purchase price allocations and restated its financial statements. As a result, Autodesk has made adjustments to decrease the amounts previously expensed as in-process research and development and increase the amounts capitalized as goodwill and other intangibles relating to the Softdesk and Genius acquisitions by \$35.9 million and \$15.7 million, respectively.

The effect of these adjustments on previously reported consolidated financial statements for the three and nine months ended October 31, 1998 and 1997 are as follows (in thousands except per share data):

	Three months ended October 31, 1998		Three months ended October 31, 1997	
	As Reported	Restated	As Reported	Restated
Nonrecurring charges.....	\$ -	\$ -	\$ -	\$ -
General and administrative.....	28,840	31,132	21,292	22,976
Cost of revenues.....	18,146	18,250	17,512	17,656
Income from operations.....	29,023	26,627	30,126	28,298
Provision for income taxes.....	10,663	10,593	11,787	11,787
Net income.....	20,700	18,374	20,956	19,128
Basic net income per share.....	\$ 0.45	\$ 0.40	\$ 0.44	\$ 0.41
Diluted net income per share.....	\$ 0.44	\$ 0.39	\$ 0.41	\$ 0.37

	Nine months ended October 31, 1998		Nine months ended October 31, 1997	
	As Reported	Restated	As Reported	Restated
Nonrecurring charges.....	\$37,692	\$21,985	\$ 58,087	\$22,187
General and administrative.....	84,306	90,718	60,455	64,384
Cost of revenues.....	56,129	56,648	52,278	52,614

Income from operations.....	88,718	97,494	1,799	33,434
Provision for income taxes.....	42,251	42,974	23,144	23,144
Net income (loss).....	57,453	65,506	(13,954)	17,681
Basic net income (loss) per share.....	\$ 1.24	\$ 1.41	\$ (0.30)	\$ 0.38
Diluted net income (loss) per share.....	\$ 1.18	\$ 1.34	\$ (0.30)	\$ 0.35

	As of October 31, 1998		As of October 31, 1997	
	As Reported	Restated	As Reported	Restated
Purchased technologies and capitalized software, net	\$33,949	\$34,640	\$ 33,998	\$35,962
Goodwill, net.....	35,054	72,946	18,545	48,216
Deferred income taxes (non-current asset).....	14,786	14,063	----	----
Retained earnings.....	49,406	87,266	42,598	74,233

2. Nonrecurring Charges

Acquisition

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

(In thousands)

Inventory	\$ 200
Net fixed assets	200
Purchased in-process research and development charged to operations in the quarter ended July 31, 1998	13,100
Purchased technology and other intangible assets	13,800
Goodwill	41,600

Total purchase consideration	\$68,900
	=====

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

In-Process Research and Development

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

Purchased technology

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

Assembled work force

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

Other nonrecurring charges

During the second quarter of fiscal year 1999, Autodesk recorded charges of approximately \$8.9 million relating primarily to restructuring charges associated with the consolidation of certain development centers (\$1.5 million); the write-off of purchased technologies associated with these operations (\$2.2 million); staff reductions in Asia Pacific in response to current economic conditions in the region (\$1.7 million); costs in relation to potential legal settlements (\$2.5 million); and the write-down to fair market value of older computer equipment that the Company planned to dispose of (\$1.0 million).

Prior year transactions

On March 31, 1997, the Company exchanged 2.9 million shares of its common stock for all of the outstanding stock of Softdesk, Inc. Based on the value of Autodesk stock and options exchanged, the transaction, including transaction costs, was valued at approximately \$94 million. This transaction was accounted for using the purchase method of accounting with the purchase price being principally allocated to capitalized software, purchased technologies, and intangible assets. Approximately \$19.2 million of the total purchase price represented the value of in-process research and development that had not yet reached technological feasibility and had no alternative future use. Approximately \$3.0 million of technology acquired from 3D/Eye during the first quarter of fiscal year 1998 also represented the value of in-process research and development that had not yet reached technological feasibility and had no alternative future use. The \$19.2 million and the \$3.0 million were charged to operations in the first quarter of fiscal year 1998.

3. Litigation accrual reversal

In December 1994, a \$25.5 million judgment was entered into against the Company on a claim of trade-secret misappropriation brought by Vermont Microsystems, Inc ("VMI"). The initial judgment and related expenses were accrued in fiscal year 1995, as well as interest expense in subsequent periods in accordance with this judgment. The Company appealed this decision, and in May 1998, final judgment was entered in the VMI litigation in the amount of \$7.8 million plus accrued interest. Following entry of judgment, the Company made a final payment of approximately \$8.4 million, including interest, to VMI. During the second quarter of fiscal year 1999, the Company recognized \$18.2 million and \$2.7 million as operating income and interest income, respectively, to reflect the remaining unutilized litigation and related interest accruals.

4. Recently Issued Accounting Standards

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

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). This Statement requires Autodesk to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. SFAS 133 is effective as of the beginning of the Company's fiscal year 2001. Autodesk is currently evaluating the impact of SFAS 133 on its financial statements and related disclosures.

5. Common Stock Repurchase Programs

The Company sold put warrants to an independent third party in December 1997 that entitled the holder of the warrants to sell 1.5 million shares of common stock to the Company at \$38.12 per share. Additionally, the Company purchased call options from the same independent third party that entitled the Company to buy 1 million shares at \$39.88 per share. The premiums received with respect to the equity options totaled \$4.5 million and equaled the premiums paid. Consequently, there was no exchange of cash. At any given date, the amounts potentially subject to market risk were generally limited to the amount by which the per share price of the put warrants exceeds the market value of the Company's common stock. The put warrants permitted a net share settlement at the Company's option. In March 1998, the Company exercised the call option, electing the net share settlement option and retired approximately 97,000 shares of its common stock. The put warrants expired unexercised. In connection with the proposed acquisition of Discreet Logic Inc. (see Note 9 to the condensed consolidated financial statements), the Company's Board of Directors has rescinded and terminated all stock repurchase programs.

6. Net Income Per Share

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

	Three months ended October 31, -----		Nine months ended October 31, -----	
	1998	1997	1998	1997
	----	----	----	----
(In thousands)				
Numerator:				
Numerator for basic and diluted per share amounts--net income	\$ 18,374	\$ 19,128	\$ 65,506	\$17,681
	=====	=====	=====	=====
Denominator:				
Denominator for basic net income per share-- weighted average shares	46,510	47,160	46,510	47,050
Effect of dilutive common stock options	850	4,320	2,250	3,300
	-----	-----	-----	-----
Denominator for dilutive net income per share	47,360	51,480	48,760	50,350
	=====	=====	=====	=====

7. Comprehensive Income

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

Autodesk's total comprehensive income was as follows:

	Three months ended October 31,		Nine months ended October 31,	
	1998	1997	1998	1997
(In thousands)				
Net income	\$18,374	\$19,128	\$65,506	\$17,681
Other comprehensive income	18,454	(1,259)	16,336	1,738
Total comprehensive income	\$36,828	\$17,869	\$81,842	\$19,419

8. Restructuring Charges

During the second quarter of fiscal year 1999, the Company's management approved restructuring plans, which include initiatives to address current economic conditions in the Asia Pacific region, consolidate duplicative facilities and reduce overhead. These plans resulted in a charge of \$5.4 million, which includes \$2.3 million for the cost of involuntary employee separation benefits relating to approximately 87 employees. Employee separation benefits include severance, medical and other benefits. Employee separation will affect certain engineers and sales and marketing employees. The remaining charge of \$3.1 million relates to other exit costs, namely the write-off of purchased technologies, lease termination buyout costs, the disposal of fixed assets in these regions, and professional fees. As of October 31, 1998, the number of employee separations due to restructuring actions was 74 and actual employee termination benefit payments of approximately \$1.5 million have been made.

9. Business Combinations

On August 20, 1998, the Company announced a definitive agreement to acquire Discreet Logic Inc. ("Discreet"), a company that develops, assembles, markets and supports non-linear, digital systems and software for creating, editing and compositing imagery and special effects for film, video, and HDTV. On September 23, 1998, November 18, 1998, December 18, 1998, and January 18, 1999, respectively, the Company, Discreet, and certain affiliates of the Company amended the acquisition agreement. Under the terms of the amended agreement, the Company will exchange 0.33 shares of its common stock, or 0.33 exchangeable shares (which can be exchanged, at the holder's election, for one share of the Company's common stock), for each outstanding share of Discreet. Based on the number of Discreet Common Shares outstanding and the number of Discreet Common Shares issuable upon exercise of outstanding Discreet Share Options as of October 31, 1998, the transaction is expected to result in the issuance of approximately 9.9 million shares of Autodesk common stock. The transaction, which will be accounted for using the pooling of interests method, is expected to be completed during the Company's first quarter of fiscal year 2000, subject to certain regulatory approvals and the approval of Discreet and Autodesk shareholders.

In September and October 1998, Discreet notified the Company that it and certain of its directors had been named as defendants in two purported class action lawsuits filed in California Superior Court for the County of Marin on behalf of owners of Discreet's common stock. The complaints allege that the defendants breached their fiduciary duties in connection with the previously announced acquisition transaction with the Company. Discreet believes the claims asserted in the complaints are without merit and intends to vigorously contest them. The Company does not expect the lawsuits to affect consummation of the transaction with Discreet.

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

THE DISCUSSION IN "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" CONTAINS TREND ANALYSES AND OTHER FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933 AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934. ALL STATEMENTS, TREND ANALYSES AND OTHER INFORMATION CONTAINED HEREIN RELATIVE TO MARKETS FOR AUTODESK'S PRODUCTS AND TRENDS IN REVENUE, AS WELL AS OTHER STATEMENTS INCLUDING SUCH WORDS AS "ANTICIPATE," "BELIEVE," "PLAN," "ESTIMATE," "EXPECT," "GOAL," AND "INTEND" AND OTHER SIMILAR EXPRESSIONS CONSTITUTE FORWARD-LOOKING STATEMENTS. THESE FORWARD-LOOKING STATEMENTS ARE SUBJECT TO BUSINESS AND ECONOMIC RISKS, AND AUTODESK'S ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS AS A RESULT OF THE FACTORS SET FORTH ELSEWHERE HEREIN, INCLUDING "CERTAIN RISK FACTORS WHICH MAY IMPACT FUTURE OPERATING RESULTS," PAGE 22, AS WELL AS FACTORS SET FORTH IN AUTODESK'S ANNUAL REPORT ON FORM 10-K/A.

RESTATEMENT OF FINANCIAL STATEMENTS

On March 31, 1997, Autodesk acquired Softdesk, Inc. ("Softdesk"), a leading supplier of AutoCAD-based applications software for the architecture, engineering, and construction market, and on May 4, 1998, acquired from Genius CAD Software GmbH ("Genius") various mechanical computer-aided-design software and technologies. Both of these acquisitions were accounted for as business combinations using the purchase method of accounting. In accordance with Accounting Principles Board Opinion No. 16, "Accounting for Business Combinations," the costs of these acquisitions were allocated to the assets acquired and the liabilities assumed (including in-process research and development) based on their estimated fair values using valuation methods believed to be appropriate at the time. The amounts allocated to in-process research and development of \$55.1 and \$28.8 million for Softdesk and Genius, respectively, were expensed in the periods in which the acquisitions were consummated in accordance with FASB Interpretation No. 4, "Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method." Subsequent to the Securities and Exchange Commission's letter to the AICPA dated September 9, 1998, regarding its views on in-process research and development ("IPR&D"), the Company has re-evaluated its IPR&D charges on the Softdesk and Genius acquisitions, revised the purchase price allocations and restated its financial statements. As a result, Autodesk has made adjustments to decrease the amounts previously expensed as in-process research and development and increase the amounts capitalized as goodwill and other intangibles relating to the Softdesk and Genius acquisitions by \$35.9 million and \$15.7 million, respectively.

The effect of these adjustments on previously reported consolidated financial statements for the three and nine months ended October 31, 1998 and 1997 are as follows (in thousands except per share data):

	Three months ended October 31, 1998		Three months ended October 31, 1997	
	As Reported	Restated	As Reported	Restated
Nonrecurring charges.....	\$ -	\$ -	\$ -	\$ -
General and administrative.....	28,840	31,132	21,292	22,976
Cost of revenues.....	18,146	18,250	17,512	17,656
Income from operations.....	29,023	26,627	30,126	28,298
Provision for income taxes.....	10,663	10,593	11,787	11,787
Net income.....	20,700	18,374	20,956	19,128
Basic net income per share.....	\$ 0.45	\$ 0.40	\$ 0.44	\$ 0.41
Diluted net income per share.....	\$ 0.44	\$ 0.39	\$ 0.41	\$ 0.37

	Nine months ended October 31, 1998		Nine months ended October 31, 1997	
	As Reported	Restated	As Reported	Restated

Nonrecurring charges.....	\$37,692	\$21,985	\$ 58,087	\$22,187
General and administrative.....	84,306	90,718	60,455	64,384
Cost of revenues.....	56,129	56,648	52,278	52,614
Income from operations.....	88,718	97,494	1,799	33,434
Provision for income taxes.....	42,251	42,974	23,144	23,144
Net income (loss).....	57,453	65,506	(13,954)	17,681
Basic net income (loss) per share.....	\$ 1.24	\$ 1.41	\$ (0.30)	\$ 0.38
Diluted net income (loss) per share.....	\$ 1.18	\$ 1.34	\$ (0.30)	\$ 0.35

	As of October 31, 1998		As of October 31, 1997	
	As Reported	Restated	As Reported	Restated
Purchased technologies and capitalized software, net	\$33,949	\$34,640	\$33,998	\$35,962
Goodwill, net.....	35,054	72,946	18,545	48,216
Deferred income taxes (non-current asset).....	14,786	14,063	----	----
Retained earnings.....	49,406	87,266	42,598	74,233

RESULTS OF OPERATIONS

Three Months Ended October 31, 1998 and 1997

Net revenues. The Company's third quarter net revenues of \$177.2 million increased 9 percent from the third quarter of the prior fiscal year. The Company achieved significant net revenue growth in the Americas and Europe when compared to the same period in the prior fiscal year, while net revenues decreased in Asia Pacific. The Company recorded net revenues in the Americas of \$86.1 million, a 10 percent increase from the same period in the prior fiscal year, and net revenues in Europe of \$66.5 million, an increase of 27 percent. This net revenue growth was the result of strong demand for products offered by the Company's Design Solutions and Personal Solutions operating segments, including software products such as AutoCAD Mechanical Desktop 3.0, AutoCAD LT98, Architectural Desktop, and incremental software revenues associated with the May 1998 acquisition of Genius (see Note 2 to the condensed consolidated financial statements). Sales of AutoCAD and AutoCAD upgrades accounted for approximately 59 percent and 72 percent of the Company's consolidated net revenues in the third quarter of fiscal years 1999 and 1998, respectively. The value of the US dollar, relative to certain international currencies, had an insignificant impact on net revenues in the third quarter of the current fiscal year compared to the same period in the prior fiscal year. International sales, including exports from the U.S., accounted for approximately 58 percent of the Company's revenues in the third quarter of fiscal year 1999 as compared to 52 percent in the same period of the prior fiscal year.

The Company experienced a decline in Asia Pacific net revenues during the third quarter of fiscal year 1999 compared to the corresponding period of the prior year due to weak economic conditions in the region. The Company expects that these adverse conditions in Asia Pacific will continue in the short term, and that they may continue to adversely affect the Company's revenue and earnings.

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

Product returns, consisting principally of stock rotation, are recorded as a reduction of revenues and represented approximately 4 percent and 6 percent of consolidated revenues in the third quarter of fiscal years 1999 and 1998, respectively. The decrease in product returns as a percentage of revenues is primarily due to the Company's continued focus on channel inventory management, sell through sales activities and programs, and the absence of performance or quality issues with the Company's software products. Although product returns decreased as a percentage of consolidated revenues, comparing the third quarter of fiscal year 1999 to the same period in the prior year, management anticipates that the level of product returns in future periods will continue to be impacted by the timing of new product releases, as well as the quality and market acceptance of new products.

Cost of revenues. When expressed as a percentage of net revenues, cost of revenues decreased from 11 percent of net revenues in the third quarter of fiscal year 1998 to 10 percent of net revenues in the corresponding period of the current fiscal year. This reduction is largely due to efficiencies in production and distribution and to a reduction in royalties paid by the Company as a result of the Company's having acquired the rights to certain multimedia products during the latter part of the third quarter of fiscal year 1998. Cost of revenues as a percentage of net revenues has been and may continue to be impacted by the mix of product sales, software amortization costs, royalty rates for licensed technology embedded in Autodesk's products, and the geographic distribution of sales.

Marketing and sales. Marketing and sales expenses were 36 percent and 37 percent of net revenues in the third quarter of fiscal years 1999 and 1998, respectively. Actual spending increased 6 percent primarily as a result of higher employee costs. The Company expects to continue to invest in marketing and sales of its products, to develop market opportunities, and to promote Autodesk's competitive position. Accordingly, the Company expects marketing and sales expenses to continue to be significant, both in absolute dollars and as a percentage of net revenues.

Research and development. Research and development expenses represented 21 percent and 20 percent of net revenues in the third quarter of fiscal years 1999 and 1998, respectively. Actual research and development spending increased by 13 percent from the same period in the prior fiscal year due to the addition of software engineers, incremental costs associated with the acquisition of Genius (see Note 2), and costs associated with the development of new and enhanced products, including the next release of AutoCAD. The Company anticipates that research and development expenses will increase in future periods as a result of product development efforts by the Company's market groups and incremental personnel costs. Additionally, the Company intends to continue recruiting and hiring experienced software developers and to consider the licensing and acquisition of complementary software technologies and businesses.

General and administrative. General and administrative expenses were 18 percent of net revenues in the third quarter of fiscal year 1999 as compared to 14 percent of net revenues in the third quarter of the prior fiscal year. In absolute dollar terms, general and administrative expenses increased 35 percent from the same period of the prior fiscal year, resulting primarily from increased employee-related expenses (a \$3 million increase), amortization of intangibles recorded in connection with the acquisition of Genius (see Note 2 of the condensed consolidated financial statements) (\$1.7 million), costs related to the Company's Year 2000 compliance program (\$1 million), and costs associated with the ongoing nonpublic Federal Trade Commission investigation of Autodesk's business practices (\$0.4 million). The Company currently expects that general and administrative expenses will increase in future periods to support spending on infrastructure, including continued investment in Autodesk's worldwide information systems and making any additional corrections to the Company's infrastructure in connection with its Year 2000 compliance program.

Interest and other income. Interest and other income remained relatively constant between the third quarter of fiscal year 1998 and the corresponding period of the current fiscal year. Interest and other income was \$2.3 million in the third quarter of fiscal year 1999 compared to \$2.6 million in the corresponding period of the prior fiscal year.

Provision for income taxes. The Company's effective income tax rate was 36.5 percent in the third quarter of fiscal year 1999 compared to 38 percent in the same quarter of the prior fiscal year. The decrease in the effective income tax rate was due to incremental tax benefits associated with the Company's foreign sales corporation and foreign earnings that are taxed at rates different than the U.S. statutory rate.

The Company's United States income tax returns for fiscal years ended January 31, 1992 through 1996, are under examination by the Internal Revenue Service ("IRS"). On August 27, 1997, the IRS issued a Notice of Deficiency proposing increases to the amount of the Company's federal income taxes for fiscal years 1992 and 1993. On November 25, 1997, the Company filed a petition with the United States Tax Court to contest these alleged tax deficiencies. The resolution of these alleged tax deficiencies and any adjustments that may ultimately result from these examinations are not expected to have a material adverse impact on the Company's consolidated results of operations or its financial position.

RESULTS OF OPERATIONS

Nine Months Ended October 31, 1998 and 1997

Net revenues. Autodesk's net revenues for the nine months ended October 31, 1998 were \$551.0 million, which represented a 27 percent increase from the same period of the prior fiscal year. The increase resulted primarily from higher sales of vertical products offered by the Company's Design Solutions and Personal Solutions operating segments.

Cost of revenues. Cost of revenues as a percentage of net revenues for the nine months ended October 31, 1998 was 10 percent, compared to 12 percent in the same period in the prior fiscal year. This reduction is largely due to efficiencies in production and distribution activities and lower royalties paid by the Company as a result of the Company's having acquired the rights to certain multimedia products during the third quarter of fiscal year 1998. Cost of revenues as a percentage of net revenues has been and may continue to be impacted by the mix of product sales, software amortization, royalty rates for licensed technology embedded in Autodesk's products, and the geographic distribution of sales.

Marketing and sales. As a percentage of net revenues, marketing and sales expenses decreased to 35 percent of net revenues in the third quarter of fiscal year 1999 from 39 percent in the nine months ended October 31, 1997. Actual spending for this period increased 13 percent as a result of higher employee costs and increased marketing costs associated with new and enhanced product offerings.

Research and development. Research and development expenses as a percentage of net revenues for the nine months ended October 31, 1998 decreased to 20 percent from 21 percent for the same period in the prior fiscal year. Actual research and development spending (including capitalized software costs of \$2.2 million recorded during the first half of fiscal year 1998) increased 16 percent as compared to the same period in the prior fiscal year. The absolute dollar increase is due primarily to the addition of software engineers, expenses associated with the development and translation of new products, and incremental research and development personnel expenses associated with the acquisition of Genius during May, 1998.

General and administrative. General and administrative expenses were 16 percent of net revenues for the nine months ended October 31, 1998, and 15 percent of net revenues in the same period of the prior fiscal year. In absolute dollar terms, general and administrative expenses increased 41 percent for the nine months ended October 31, 1998 from the same period of the prior fiscal year, primarily because of increased employee-related expenses (\$8 million increase), amortization of intangibles recorded in connection with the acquisition of Genius and the Softdesk merger (\$5.1 million increase), other depreciation and amortization expenses (\$2 million increase), costs incurred to ensure that the Company's infrastructure is year 2000 compliant (\$3 million), and costs incurred in the ongoing nonpublic FTC investigation (\$1.1 million).

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

IN-PROCESS TECHNOLOGIES OVERVIEW

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

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

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

GENIUS IN-PROCESS TECHNOLOGIES	PERCENT COMPLETED	TECHNOLOGY LIFE	INTRODUCTION DATES
Genius AutoCAD Version R15	45%	6 years	mid/late 1999
Genius Desktop Version 3.0	40%	4 years	Sept. 1998
Genius AutoCAD LT 1998	20%	5 years	mid/late 1999
Genius Vario Version R15	20%	3 years	mid/late 1999
Genius Modules Version R15	20%	3 years	mid/late 1999

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

Genius AutoCAD and Genius Desktop

The substantial technological improvements under development at the time of the acquisition included modernizing the code and significantly improving the ease of use of the products.

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

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

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

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

Genius AutoCAD LT

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

Genius Vario and Modules

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

VALUATION ANALYSIS

Revenue

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

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

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

Operating expenses

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

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

General and administrative. General and administrative expense, expressed as a percentage of revenue, for the developed and in-process technologies identified in the valuation ranged from 8.5 percent in fiscal year 1999 to 6.0 percent in fiscal year 2002. Thereafter, general and administrative expenses, expressed as a percentage of revenue for the developed and in-process technologies identified in valuation were estimated to stabilize at 5.0 percent of revenue. For the fiscal year ended January 31, 1998, Autodesk's general and administrative expense, excluding depreciation and amortization, was approximately 9 percent.

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

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

Effective income tax rate

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

Discount rate

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

ALLOCATION OF VALUE

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

IDENTIFIED INTANGIBLE ASSET	GEOGRAPHIC ALLOCATION	
	EUROPE	ROW
Developed Technology	\$7,620,000	\$5,080,000
In-Process Technology	7,860,000	5,240,000
Trademark, trade name and other intangible assets	660,000	440,000

COMPARISON TO ACTUAL RESULTS

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

Nonrecurring charges--Other. During the second fiscal quarter, Autodesk recorded charges of approximately \$8.9 million relating primarily to restructuring charges associated with the consolidation of certain development centers (\$1.5 million); the write-off of purchased technologies associated with these operations (\$2.2 million); staff reduction in Asia Pacific in response to current economic conditions in the region (\$1.7 million); costs in relation to potential legal settlements (\$2.5 million); and the write-down to fair market value of older computer equipment that the Company planned to dispose of (\$1.0 million). These charges reduced income after tax by approximately \$5.9 million (\$0.12 per share on a diluted basis). The restructurings noted above are expected to be completed by the end of Autodesk's fiscal year ending January 31, 1999. See Note 8 to the condensed consolidated financial statements for further explanation.

Nonrecurring charges--prior year transactions. On March 31, 1997, the Company exchanged 2.9 million shares of its common stock for all of the outstanding stock of Softdesk, Inc. Based on the value of Autodesk stock and options exchanged, the transaction, including transaction costs, was valued at approximately \$94 million. This transaction was accounted for using the purchase method of accounting with the purchase price being principally allocated to capitalized software, purchased technologies, and intangible assets. Approximately \$19.2 million of the total purchase price represented the value of in-process research and development that had not yet reached technological feasibility and had no alternative future use. Approximately \$3.0 million of technology acquired from 3D/Eye during the first quarter of fiscal year 1998 also represented the value of in-process research and development that had not yet reached technological feasibility and had no alternative future use. The \$19.2 million and the \$3.0 million were charged to operations in the first quarter of fiscal year 1998. These charges reduced net income for the period by approximately \$21.1 million (\$0.46 per share on a diluted basis) and reflect the fact the one-time charge for acquired in-process research and development recorded in connection with the Softdesk transaction was not deductible for income tax purposes.

Litigation accrual reversal. The Company recorded a \$25.5 million nonrecurring charge during fiscal year 1995 on a claim of trade-secret misappropriation brought by Vermont Microsystems, Inc. ("VMI"). As of the end of the first quarter of fiscal year 1999, the total amount accrued related to the initial judgment plus accrued interest was approximately \$29.3 million. The Company appealed this decision, and in May 1998, final judgment was entered in the VMI litigation and a corresponding final payment of approximately \$8.4 million was made to VMI. During the second quarter of fiscal year 1999, the Company recognized \$18.2 million and \$2.7 million to operating income and interest income, respectively, to reflect the remaining unutilized litigation and related interest accruals.

Interest and other income. Interest and other income for the nine months ended October 31, 1998 was \$11.0 million as compared to \$7.4 million for the same period in the prior fiscal year. Interest income was \$7.8 million for the first nine months of the current fiscal year as compared with \$5.0 million in the prior fiscal year. The fiscal year 1999 amount included \$2.7 million representing the interest portion of the VMI settlement (see Note 3 to the unaudited Condensed Consolidated Financial Statements). Also contributing to the year-over-year increase was a \$1.3 million gain realized upon the sale of technical programs and related documentation, certain tangible fixed assets, copyrights, tradenames, and other intangible assets associated with Autodesk's Picture This Home!(R) software programs and series of consumer titles. Autodesk did not transfer any liabilities as part of this sale.

Provision for income taxes. The Company's effective income tax rate, excluding the impact of nonrecurring charges, was 36 percent for the first nine months of fiscal year 1999 as compared to 38.5 percent for the same period in the prior fiscal year. The decrease in the effective income tax rate was due to incremental tax benefits associated with the Company's foreign sales corporation and foreign earnings that are taxed at rates different than the U.S. statutory rate. The \$.7 million benefit from the \$13.1 million charge in the second quarter of fiscal year 1999 for in-process research and development associated with the acquisition of Genius is less than the U.S. statutory rate as a portion of it will not be deductible for U.S. tax purposes. Additionally, a valuation allowance has been established for a portion of the deferred tax asset which is deductible for U.S. tax purposes over an extended period of time.

The Company's United States income tax returns for fiscal years ended January 31, 1992 through 1996, are under examination by the Internal Revenue Service ("IRS"). On August 27, 1997, the IRS issued a Notice of Deficiency proposing increases to the amount of the Company's federal income taxes for fiscal years 1992 and 1993. On November 25, 1997, the Company filed a petition with the United States Tax Court to contest these alleged tax deficiencies. Resolution of these alleged tax deficiencies and any adjustments that may ultimately result from these examinations are not expected to have a material adverse impact on the Company's consolidated results of operations or its financial position.

CERTAIN RISK FACTORS WHICH MAY IMPACT FUTURE OPERATING RESULTS

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

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

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

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

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

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

The technology industry is particularly susceptible to fluctuations in operating results within a quarter. While Autodesk experienced more linear operating results within the current quarter compared to prior years, historically the majority of its orders within a fiscal quarter have frequently been concentrated within the last weeks or days of that quarter. These fluctuations are caused by a number of factors, including the relatively long sales cycle of some of Autodesk's products, the timing of the introduction of new products by Autodesk or its competitors, and other economic factors experienced by the Company's customers and the geographic regions in which Autodesk does business. Additionally, Autodesk's operating expenses are based in part on its expectations for future revenues and are relatively fixed in the short term. Accordingly, any revenue shortfall below expectations could have an immediate and significant adverse effect on the Company's consolidated results of operations and financial condition.

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

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

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Product development and introduction. The software industry is characterized by rapid technological change as well as changes in customer requirements and preferences. The software products offered by the Company are internally complex and, despite extensive testing and quality control, may contain errors or defects ("bugs"), especially when first introduced. In fiscal year 1996, Autodesk experienced quality and performance issues associated with AutoCAD Release 13, including issues related to compatibility with certain hardware platforms and peripheral equipment, interoperability problems with products designed to work in conjunction with AutoCAD Release 13, and other issues associated with the software's object-oriented design. These factors resulted in a high rate of product returns in fiscal year 1996. There can be no assurance that defects or errors will not occur in future releases of AutoCAD or other software products offered by the Company. Such defects or errors could result in corrective releases to the Company's software products, damage to Autodesk's reputation, loss of revenues, an increase in product returns, or lack of market acceptance of its products, any of which could have a material and adverse effect on the Company's business and consolidated results of operations.

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

Certain of the Company's historical product development activities have been performed by independent firms and contractors, while other technologies are licensed from third parties. Autodesk generally either owns or licenses the software developed by third parties. Because talented development personnel are in high demand, there can be no assurance that independent developers, including those who have developed products for the Company in the past, will be able to provide development support to the Company in the future. Similarly, there can be no assurance that the Company will be able to obtain and renew license agreements on favorable terms, if at all, and any failure to do so could have a material adverse effect on the Company's business and consolidated results of operations.

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 the Company's design software. There can be no assurance that certain developers will not elect to support other products or otherwise experience disruption in product development and delivery cycles. Such disruption in particular markets could negatively impact these third-party developers and end users, which could have a material adverse effect on Autodesk's business and consolidated results of operations. Further, increased merger and acquisition activity currently experienced in the technology industry could affect relationships with other third-party developers, and thus adversely affect operating results.

International operations. The Company anticipates that international operations will continue to account for a significant portion of its consolidated revenues. Risks inherent in the Company's international operations include the following: unexpected changes in regulatory practices and tariffs; difficulties in staffing and managing foreign operations; longer collection cycles; potential changes in tax laws; greater difficulty in protecting intellectual property; and the impact of fluctuating exchange rates between the U.S. dollar and foreign currencies in markets where Autodesk does business. During the first nine months of fiscal year 1999, changes in exchange rates from the same period of the prior fiscal year negatively impacted revenues, principally due to changes in the rate of exchange between the U.S. dollar and the Japanese yen and the Australian dollar. The Company's risk management strategy uses derivative financial instruments in the form of forward foreign exchange contracts for the purpose of hedging foreign currency market exposures of underlying assets, liabilities, and other obligations which exist as a part of its ongoing business operations. Autodesk does not enter into derivative contracts for the purpose of trading or speculative transactions. The Company's international results may also be impacted by general economic and political conditions in these foreign markets. The Company's international results have been impacted by recent unfavorable economic and political conditions in the Asian markets as described above under "Results of Operations - Net Revenues." There can be no assurance that the economic crisis and currency issues currently being experienced in these markets will not have a material adverse effect on the Company's future international operations and consequently, on the Company's business and consolidated results of operations.

Dependence on distribution channels. The Company sells its software products primarily to distributors and resellers (value-added resellers, or "VARs"). Autodesk's ability to effectively distribute products depends in part upon the financial and business condition of its VAR network. Although the Company has not to date experienced any material problems with its VAR network, computer software dealers and distributors are typically not highly capitalized and have experienced difficulties during times of economic contraction and may do so in the future. While no single customer accounted for more than 10 percent of Autodesk's consolidated revenues in fiscal years 1998, 1997, or 1996, the loss of or a significant reduction in business with any one of the Company's major international distributors or large U.S. resellers could have a material adverse effect on the Company's business and consolidated results of operations in future periods. Autodesk's largest international distributor is Computer 2000 AG in Germany. Autodesk's largest resellers and distributors in the United States are Ingram, Avatech, and DLT.

Product returns. With the exception of certain European distributors, agreements with the Company's VARs do not contain specific product-return privileges. However, Autodesk permits its VARs to return product in certain instances, generally during periods of product transition and during update cycles. Although product returns, comparing the third quarter of fiscal 1999 to the same period in the prior year, decreased as a percentage of consolidated revenues, management anticipates that product returns in future periods will continue to be impacted by product update cycles, new product releases, and software quality.

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

Intellectual property. The Company relies on a combination of patent, copyright and trademark laws, trade secrets, confidentiality procedures, and contractual provisions to protect its proprietary rights. Despite such efforts to protect the Company's proprietary rights, unauthorized parties may attempt to copy aspects of the Company's software products or to obtain and use information that Autodesk regards as proprietary. Policing unauthorized use of the Company's software products is time-consuming and costly. Although the Company is unable to fully measure the extent to which piracy of its software products exists, software piracy can be expected to be a persistent problem. There can be no assurance that the Company's means of protecting its proprietary rights will be adequate or that its competitors will not independently develop similar technology. The Company expects that software product developers will be increasingly subject to infringement claims as the number of products and competitors in its industry segments grows and the functionality of products in different industry segments overlap. There can be no assurance that infringement or invalidity claims (or claims for indemnification resulting from infringement claims) will not be asserted against the Company or that any such assertions will not have a material adverse effect on its business. Any such claims, whether with or without merit, could be time-consuming, result in costly litigation and diversion of resources, cause product shipment delays, or require the Company to enter into royalty or licensing agreements. In addition, such royalty or license agreements, if required, may not be available on acceptable terms, if at all, which could have a material adverse effect on the Company's business and consolidated results of operations.

The Company also relies on certain software that it licenses from third parties, including software that is integrated with internally developed software and used in its products to perform key functions. There can be no assurance that these third-party software licenses will continue to be available on commercially reasonable terms, or that the software will be appropriately supported, maintained, or enhanced by the licensors. The loss of licenses, or inability to support, maintain, and enhance any such software, could result in increased costs, or in delays or reductions in product shipments until equivalent software could be developed, identified, licensed, and integrated, which could have a material adverse effect on the Company's business and consolidated results of operations.

Risks associated with recent acquisitions and investments. The Company periodically acquires or invests in businesses, software products and technologies which are complementary to the Company's business through strategic alliances, debt and equity investments, joint ventures and the like. The risks associated with such acquisitions or investments include, among others, the difficulty of assimilating the operations and personnel of the companies, the failure to realize anticipated synergies and the diversion of management's time and attention. In addition, such investments and acquisitions may involve significant transaction-related costs. There can be no assurance that the Company will be successful in overcoming such risks or that such investments and acquisitions will not have a material adverse impact upon the Company's business, financial condition or results of operations. In addition, such investments and acquisitions may contribute to potential fluctuations in quarterly results of operations due to merger-related costs and charges associated with eliminating redundant expenses or write-offs of impaired assets recorded in connection with acquisitions, any of which could negatively impact results of operations for a given period or cause lack of linearity quarter to quarter in the Company's operating results or financial condition.

As further described in Note 2 to the condensed consolidated financial statements, on May 4, 1998, the Company acquired the mechanical applications business of Genius for approximately \$69 million in cash, which includes fees and expenses. As discussed in Note 9, on January 18, 1999, the Company announced an amended agreement to acquire Discreet by the issuance of 0.33 shares of Autodesk's common stock or 0.33 exchangeable shares (which can be exchanged, at the holder's election, for one share of the Company's common stock), in exchange for each outstanding share of Discreet. There can be no assurance that the anticipated benefits of the Genius acquisition, the Discreet acquisition, or any future acquisitions will be realized.

Attraction and Retention of Employees. The continued growth and success of the Company depends significantly on the continued service of highly skilled employees. Competition for these employees in today's marketplace, especially in the technology industries, is intense. The Company's ability to attract and retain employees is dependent on a number of factors including its continued ability to grant stock incentive awards. There can be no assurance that the Company will be successful in continuing to recruit new personnel and to retain existing personnel. The loss of one or more key employees or the Company's inability to maintain existing employees or recruit new employees could have a material adverse impact on the Company. In addition, the Company may experience increased compensation costs to attract and retain skilled personnel.

Impact of Year 2000. Some of the computer programs used by the Company in its internal operations rely on time-sensitive software that was written using two digits rather than four to identify the applicable year. These programs may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities. The Company is currently in the remediation or fourth phase of a six-phase year 2000 compliance program related to information technology ("IT") systems and expects to complete this phase by the end of fiscal year 1999. The remaining two phases are expected to be virtually complete by the end of the Company's fiscal year 1999 with minor testing and risk mitigation activities being performed through the end of calendar year 1999. As of October 31, 1998, the Company had spent approximately \$4 million on the IT year 2000 project, of which approximately \$300,000 had been capitalized. The Company expects to spend an additional \$2 million to \$3 million to complete this project. All expenditures to date have been captured either in prior year or current year budgets. The Company believes that the key components of the IT year 2000 project have either been replaced or remediated. Further, the Company estimates that if any component of the current systems fail due to year 2000 related issues, the Company would be able to divert people and systems traffic, causing delays of between one to three days in service interruptions and processing Autodesk information. Autodesk has a contingency plan in place in order to prevent the loss of critical data which includes the back up of all critical data processing interactions and a disaster recovery plan. There can be no assurance, however, that there will not be a delay in the completion of these procedures or that the cost of such procedures will not exceed original estimates, either of which could have a material adverse effect on future results of operations.

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

The Company has also tested and continues to test all products it currently produces internally for sale to third parties to determine year 2000 compliance. As of October 31, 1998, the Company has spent approximately \$300,000 on the first two phases of a three-phase-year 2000 compliance testing program related to its products and expects to spend an additional \$1.2 to \$1.7 million to complete this project. Currently-sold products either have been found to be substantially compliant or are currently being tested for compliance. However, many Autodesk products run on operating systems or hardware produced and sold by third-party vendors. There can be no assurance that these operating systems or hardware will be converted in a timely manner, or at all, and any failure in this regard may cause Autodesk products not to function as designed. The Company will continue to evaluate each product in the currently supported inventory. Any future costs associated with ensuring that the Company's products are compliant with the year 2000 are not expected to have a material impact on the Company's results of operations or financial position. Furthermore, commentators have stated that a significant amount of litigation may arise out of year 2000 compliance issues, and the Company is aware of a growing number of lawsuits against other software vendors. Because of the unprecedented nature of such litigation, it is uncertain whether and to what extent the Company may be affected by it.

Single European Currency. The Company is in the process of addressing the issues raised by the introduction of the Single European Currency ("Euro") as of January 1, 1999 and during the transition period ending January 1, 2002. The Company will continue to modify the internal systems that will be affected by this conversion during fiscal year 2000, and does not expect the costs of further system modifications to be material. There can be no assurance, however, that the Company will be able to complete such modifications to comply with Euro requirements, which could have a material adverse effect on the Company's operating results. The Company is currently evaluating the impact of the introduction of the Euro on its foreign exchange and hedging activities, functional currency designations, and pricing strategies in the new economic environment. In addition the Company faces risks to the extent that banks and vendors upon whom the Company relies and their suppliers are unable to make appropriate modifications to support the Company's operations with respect to Euro transactions. While the Company will continue to evaluate the impact of the Euro, management does not believe its introduction will have a material adverse effect upon the Company's results of operations or financial condition.

LIQUIDITY AND CAPITAL RESOURCES

Cash, cash equivalents, and marketable securities, which consist primarily of high-quality municipal bonds, tax-advantaged money market instruments and U.S. treasury bills, totaled \$337.7 million at October 31, 1998, compared to \$301.3 million at January 31, 1998. The \$36.4 million increase in cash, cash equivalents, and marketable securities was due primarily to cash generated from operations of \$87.8 million and proceeds from the issuance of common stock (\$74.7 million). This increase was partially offset by the acquisition of Genius (\$69.3 million), payments to retire common stock (\$48.9 million), and purchases of fixed assets (\$11.4 million).

The Company sold put warrants to an independent third party in December 1997 that entitled the holder of the warrants to sell 1.5 million shares of common stock to the Company at \$38.12 per share. Additionally, the Company purchased call options from the same independent third party that entitled the Company to buy 1 million shares at \$39.88 per share. The premiums received with respect to the equity options totaled \$4.5 million and equaled the premiums paid. Consequently, there was no exchange of cash. At any given date, the amounts potentially subject to market risk were generally limited to the amount by which the per share price of the put warrants exceeds the market value of the Company's common stock. The put warrants permitted a net share settlement at the Company's option. In March 1998, the Company exercised the call option, electing the net share settlement option and retired approximately 97,000 shares of its common stock. The put warrants expired unexercised.

In connection with the proposed acquisition of Discreet Logic Inc. (see Note 9 to the condensed consolidated financial statements), in August 1998, the Company's Board of Directors has rescinded and terminated all stock repurchase programs.

The Company has an unsecured \$40 million bank line of credit, of which \$20 million is guaranteed, that may be used from time to time to facilitate short-term cash flow. At October 31, 1998, there were no borrowings outstanding under this credit agreement, which expires in January 1999.

The Company's principal commitments at October 31, 1998 consisted of obligations under operating leases for facilities. The Company believes that its existing cash, cash equivalents, marketable securities, available line of credit, and cash generated from operations will be sufficient to satisfy its currently anticipated cash requirements for the next twelve months.

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

Additionally, reference is made to the Form 10-Q/A filed with the Securities and Exchange Commission for the period ended July 31, 1998.

ITEM 5. OTHER INFORMATION

Reference is made to the Form 10-Q/A filed with the Securities and Exchange Commission for the period ended July 31, 1998.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits

27.0 Financial Data Schedule restated for the period ended October 31, 1998

Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended October 31, 1998.

SIGNATURES

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

DATED: February 3, 1999

AUTODESK, INC.
(Registrant)

/S/ CAROL A. BARTZ

Carol A. Bartz
Chairman and Chief Executive Officer

/S/ STEVE CAKEBREAD

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

9-MOS	
JAN-31-1999	OCT-31-1998
	76,640
261,032	
96,693	
7,090	
6,667	
479,080	147,991
108,831	
662,545	
227,527	0
0	0
	0
	345,735
662,545	86,664
	551,022
551,022	56,648
395,392	
0	
1,488	
603	
108,480	
42,974	
65,506	0
	0
	0
	65,506
	1.41
	1.34

Certain information for the 9 months ended October 31, 1998 has been restated to reflect the adjustment described at Note 1 to the Company's consolidated Financial Statements.