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

FORM 10-K/A

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED JANUARY 31, 1998
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER: 0-14338

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

DELAWARE  
(State or other jurisdiction of incorporation or organization)

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

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

94903  
(Zip Code)

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

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

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

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

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

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

Yes  No

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based upon the closing sale price of the Common Stock on April 21, 1998 as reported on the Nasdaq National Market, was approximately \$1,808,000,000. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of April 21, 1998, Registrant had outstanding 46,755,000 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Stockholders for the fiscal year ended January 31, 1998 are incorporated by reference into Parts II and IV. Portions of the Proxy Statement for Registrant's 1998 Annual Meeting of Stockholders to be held June 25, 1998 are incorporated by reference in Part III.

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PART I

FORWARD-LOOKING INFORMATION

The forward-looking statements included in this report, which reflect management's best judgment based on factors currently known, involve risks and uncertainties. Actual results could differ materially from those anticipated in the forward-looking statements included herein as a result of a number of factors, including but not limited to those discussed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," incorporated by reference to pages 22 through 32 of the Company's 1998 Annual Report to Stockholders.

ITEM 1. BUSINESS

GENERAL

Autodesk, Inc. ("Autodesk" or the "Company") was incorporated in California in 1982 and was reincorporated in Delaware in May 1994. The Company's two-dimensional ("2D") and three-dimensional ("3D") products are used across industries and in the home for architectural design, mechanical design, spatial data management and mapping, animation, and visualization applications. The Company's flagship product, AutoCAD/R/, is one of the world's leading computer-aided design ("CAD") tools, with an installed base of more than 1.9 million units worldwide. The Company's software products are sold worldwide, primarily through a network of dealers and distributors.

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

Architecture, Engineering, and Construction ("AEC") The architecture, engineering, construction, and facilities management industries utilize software from the Company and third-party developers to manage every phase of a building's life cycle--from conceptual design through construction, maintenance, and renovation. During fiscal year 1998, the Company expanded its product offerings for the AEC Market Group by acquiring Softdesk, Inc. in March 1997. AEC products include AutoCAD + S8 Architectural Suite, Softdesk/R/ 8 AEC Tools, and AEC Professional Suite.

Mechanical Computer-Aided Design ("MCAD") The Company's Mechanical CAD Market Group is dedicated to providing mechanical engineers, designers, and drafters with advanced, value-based software solutions that are designed to solve their professional design challenges. Autodesk's premier MCAD product is Mechanical Desktop/R/.

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

Personal Solutions Group ("PSG") The PSG Market Group develops easy-to-use, affordable tools for professionals, occasional users, or consumers who design, draft, and diagram, thus expanding the Company's traditional customer base of architects and engineers. PSG products include AutoCAD LT/R/, AutoSketch/R/, and Picture This Home!/R/ Kitchen & Bath.

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

## PRODUCTS

The Company has aligned its market groups into three segments: the Design Solutions segment (which includes the AEC, MCAD, and GIS market groups, as well as AutoCAD products), the Personal Solutions segment, and Kinetix (the multimedia segment). The Company's Design Solutions segment includes the following products:

### AutoCAD/R/

AutoCAD software is a general-purpose CAD tool used independently and in conjunction with specific applications designed to work with AutoCAD in fields ranging from architecture and mechanical design to plant design and mapping. Professionals utilize AutoCAD for design, modeling, drafting, mapping, rendering, and management tasks. AutoCAD runs on MS-DOS/R/, Windows/R/ 95, Windows NT/R/ for both Intel and Alpha, Windows 3.1, and certain UNIX-based platforms (Sun Solaris, HP-UX, Silicon Graphics IRIX, and IBM AIX). Because AutoCAD software's DWG files are portable across many platforms and operating systems, it is a viable solution for customers with multiple computer systems who need to exchange drawing files in such an environment.

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

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

Sales of AutoCAD and AutoCAD upgrades accounted for approximately 70 percent of Autodesk's revenues in fiscal years 1998 and 1997 as compared to approximately 80 percent in fiscal year 1996. During fiscal year 1998, approximately 244,000 new AutoCAD licenses were added worldwide, compared to 207,000 licenses and 233,000 licenses added during fiscal years 1997 and 1996, respectively.

#### AutoCAD/R/ OEM

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

#### Mechanical Desktop/R/

Mechanical Desktop software is an integrated software application that unites advanced 2D and 3D mechanical design capabilities for PCs. The Mechanical Desktop contains integrated modules for fully parametric feature-based solid modeling, surface modeling, and assembly modeling; 2D design/drafting and bidirectional associative drafting; as well as a built-in Autodesk IGES Translator, which enables users to accurately exchange IGES (Initial Graphics Exchange Specification) data with other systems. Mechanical Desktop Release 2.0, which was released in December 1997, includes an Express User Interface, Edit-in-Place assembly functionality, and improved integration with the Company's AutoCAD Release 14 for mechanical drafting, and 3D Studio MAX for 3D photorealistic rendering and animation. Advanced ordinate dimensioning, editing and display of crosshatch patterns, surface scaling, section view, and associative bill-of-materials generation are among the features included in the latest release of Mechanical Desktop software.

#### AutoCAD Map/R/

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

#### Autodesk MapGuide/TM/

MapGuide is a Web-based GIS technology that is designed to allow corporate customers and developers to use the Internet and business intranets to rapidly deploy decision support systems with a geographic component. Suited for a wide range of users--from GIS professionals to the casual computer user--MapGuide software enables users to access and query digital maps and permits users to display and analyze geographic data for applications that include tracking customers, allocating resources, and managing facilities infrastructure.

Autodesk World/TM/

Autodesk World allows for the management of geographic-based data. It offers capture, edit, analysis, integration, and presentation functionality for spatial data, including raster, vector (CAD and GIS), and attributes. It also includes Object Linking and Embedding ("OLE"), which allows users to link drawings to other Windows applications such as Microsoft/R/ Word or Excel, application programming interfaces, and an integrated Visual Basic for Applications 5.0 scripting environment for easy customization and application development.

AEC Professional Suite

Autodesk AEC Professional Suite 2.0, introduced in June 1997, is an integrated set of design tools created for professionals in the fields of Architecture, Engineering, Construction, Facility Management, and Plant Design and Management. It includes AutoCAD Release 14 software, specialized AEC AutoCAD enhancements, Architectural Symbols, Autodesk WalkThrough/TM/, DesignBlocks/R/, and Autodesk View/R/. The AEC Professional Suite Release 2.0 serves a variety of needs of the AEC professional via improved customization and ease-of-use, integration of visualization tools into the design process and CAD applications, access to standard manufacturer data, and a lower cost for the overall design solution. Enhancements to the Suite enable the user to detect and mend lines and arcs that are coincident or overlapping, create and control perspective view with Camera Object, and provide access to more than 300 ready-made textures from multiple AEC-specific materials libraries.

Softdesk/R/ 8 Civil/ Survey Special Edition

The Softdesk 8 Civil/Survey Special Edition is a focused set of programs for professionals in the Civil Engineering, Land Planning, and Surveying industries. These products extend AutoCAD Release 14 or AutoCAD Map 2.0 by addressing common surveying requirements such as Surface Modeling and Contouring, Point Manipulation, Data Input and Analysis, Base Map Creation, and the incorporation of raster imagery. The solution also offers design and analysis capabilities for site and transportation, storm and sanitary drain systems, grading, parking, and landscape design.

AutoCAD/R/ + S8 Architectural Suite

The AutoCAD + S8 Architectural Suite includes other AEC products such as S8 Architectural Professional Special Edition, AEC Tools, and Auto-Architect/TM/. Auto-Architect includes landscape tools and utilities to generate structural foundation/framing plans and elevations in addition to space planning, walls, doors and windows, roofs and stairs. In this suite, AEC Tools is used to manage project and office standards and to create and manage details and other productive utilities.

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

AutoCAD LT/R/

AutoCAD LT 97 is a low-cost 2D CAD application intended for CAD managers, designers, and engineers who need a powerful, stand-alone CAD tool, but who do not require the advanced feature set in AutoCAD. AutoCAD LT 97 software contains an extensive 2D drafting toolset as well as 3D lines and polylines with quick shading and hidden-line removal. Other features include a Start-Up dialog box and Drawing Set-Up wizards to help the user create or open a drawing quickly; real-time pan and zoom; a Drag-and-Drop Content Explorer featuring hundreds of industry-standard symbols; and Integrated Internet Tools to open or save drawings directly to the Internet. AutoCAD LT operates in the Windows environment with pull-down menus, customizable toolbar, toolbox, menus, and scripts, as well as dialog boxes and icons. It supports the Windows Clipboard, as well as OLE. AutoCAD LT 97 is fully compatible with Windows 95 and Windows NT 4.0 and has built-in Microsoft Office 97 compatibility.

AutoSketch/R/

AutoSketch Release 5.0 for Windows is a precision drawing program that can be used for creating technical diagrams, architectural layouts, electrical drawings, mechanical plans, information graphics, and presentations. The Application Wizards customize their interfaces based on the type of drawing to allow for the creation of drawings, diagrams, and sketches.

## Picture This Home!/R/ Kitchen & Bath

Introduced by the Company during fiscal year 1997, Picture This Home! Kitchen is a kitchen remodeling program that allows users to visualize and plan their own kitchen. Picture This Home! Bath lets consumers create a complete customized bathroom and instantly view their decorating and design choices in 2D and 3D images. The technology also allows users to mix and match thousands of decorative products (such as paints, wallpapers, fixtures, and appliances) from top manufacturers using magazine-quality photographic images.

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

### 3D Studio MAX/R/

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

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

### 3D Studio VIZ/TM/

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

## PRODUCT DEVELOPMENT AND ENHANCEMENT

The computer industry is characterized by rapid technological change in computer hardware, operating systems, and software. To keep pace with this change, the Company maintains an aggressive program of new product development. The Company dedicates considerable resources to research and development to further enhance its existing products and to create new products and technologies. During fiscal years 1998, 1997, and 1996, the Company incurred \$122,432,000, \$93,702,000, and \$78,678,000, respectively, for software design, development, product localization, and project-management activities (excluding capitalized software development costs of approximately \$2,200,000 in fiscal year 1998; no software development costs were capitalized during fiscal years 1997 and 1996).

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

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

The software products offered by the Company are internally complex. Despite extensive testing and quality control, these products 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 price, reliability, performance, range of useful features, continuing product enhancements, reputation, 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 the Company'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. The Company 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 existing license agreements on favorable terms, if at all, which could have a material and 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 Autodesk'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.

Additionally, there can be no assurance that the Company's development efforts will result in the timely introduction of new products or that such new products will be commercially successful. Failure to successfully develop new products, delays in the introduction of these new products, or lower-than-anticipated demand for these products could have a material and adverse effect on the Company's business and consolidated results of operations.

#### MARKETING AND SALES

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

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

Domestically, the Company distributes its products primarily through its authorized dealer network. Other domestic sales are made principally to large corporations, governmental agencies, educational institutions, and, for certain low-end CAD products, to end users. Substantially all of Autodesk's international sales are made to dealers and distributors, which are supported by Autodesk's foreign subsidiaries and international sales organizations. Certain international sales result from direct exports from the United States. Fluctuations in foreign exchange rates, specifically the stronger value of the dollar, relative to certain international currencies, negatively impacted foreign revenues during fiscal year 1998. These foreign currency fluctuations, as well as any slowdowns in any of the Company's geographical markets, including the recent economic instability experienced in certain Asia Pacific countries, could have a material adverse effect on Autodesk's business and future consolidated results of operations.

Autodesk's ability to effectively distribute its products depends in part upon the financial and business condition of its VAR network. Although the Company has not to date experienced any material problems with its VAR network, computer software dealers and distributors are typically not highly capitalized, have tended to experience difficulties during times of economic contraction and during periods of technology-market price pressure, and may do so in the future. 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 Autodesk'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.

The Company intends to continue to make its products available in foreign languages and expects that foreign sales will continue to contribute a significant portion of its consolidated revenues. Foreign revenues, including export sales from the United States to foreign customers, accounted for approximately 58 percent, 65 percent, and 64 percent of revenues in fiscal years 1998, 1997, and 1996, respectively.

#### CUSTOMER AND DEALER SUPPORT

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

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

As of January 31, 1998, the Company had authorized more than 900 independent Autodesk Training Centers ("ATCs") throughout the world. These accredited training centers offer in-depth education and training in computer-aided design skills on AutoCAD and other Autodesk products, as well as on related, independently developed software.

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

## DEVELOPER PROGRAMS

One of the Company's key strategies is to maintain an open-architecture design of its software products to facilitate third-party development of peripheral and complementary products. This approach enables customers and third parties to customize the Company's products for a wide variety of highly specific uses. Autodesk offers several programs that provide marketing, sales, and technical support and programming tools to Autodesk Registered Developers worldwide, who have, to date, developed more than 5,000 commercially available add-on applications for Autodesk products. Although Autodesk derives no direct revenue from these application developers, the Company believes that the availability and use of their add-on products enhance sales opportunities for Autodesk's core products.

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

To support the growth of third-party developers, whose applications extend and enhance the functionality of Autodesk's products worldwide, the Company established the Virtual Corporation Partner Program ("VCP") during fiscal year 1995. The VCP is a business network comprised of dealers, independent application developers, Autodesk Training Centers, and customers. This program provides sales, marketing, technical, product, management, and financial support to Autodesk Strategic Developers and Dealers.

During fiscal year 1998, the Company continued to expand the Mechanical Applications Initiative ("MAI") by adding new partners. This program, which was introduced in fiscal year 1996, is aimed at the development and marketing of products which can be integrated with Autodesk's MCAD products. MAI partners participate with Autodesk in product marketing and development activities.

## BACKLOG

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

## COMPETITION

The software industry has limited barriers to entry, and the availability of desktop computers with continually expanding capabilities at progressively lower prices contributes to the ease of market entry. Because of these and other factors, competitive conditions in the industry are likely to intensify in the future. Increased competition could result in price reductions, reduced revenues and profit margins, and loss of market share, any of which could adversely affect Autodesk's business, consolidated results of operations and financial condition.

The 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.); 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"). The Company's MCAD products compete with products offered by Bentley; Visionary Design Systems; Hewlett-Packard Corporation; Parametric Technologies, Inc.; Structural Dynamics Research Corporation; Unigraphics; Computervision Corporation (a subsidiary of Parametric Technologies); Dassault Systemes; SolidWorks Corporation (a subsidiary of Dassault); and Baystate Technologies, Inc. The Company's GIS Market Group faces competition from Bentley; Intergraph Corporation; 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.; Microsoft Corporation; and Silicon Graphics, Inc. The Personal Solutions Group family of products competes with Broderbund Software, Inc.; IMSI; Visio; and Micrografx Inc. Certain of the competitors of the Company have greater financial, technical, sales and marketing, and other resources than the Company.

Autodesk believes that the principal factors affecting competition in its markets are price, product reliability, performance, range of useful features, continuing product enhancements, reputation, 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 of its business practices. The FTC had 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 impact on its business or results of operations.

#### INTELLECTUAL PROPERTY AND LICENSES

The Company protects its intellectual property through copyright, trade secret, patent, and trademark laws. For substantially all AutoCAD sales outside of North America, the Company uses software protection locks to inhibit unauthorized copying. Nonetheless, there can be no assurance that Autodesk's intellectual property rights can be successfully asserted in the future or will not be invalidated, circumvented, or challenged. In addition, the laws of certain foreign countries where Autodesk's products are distributed do not protect Autodesk's intellectual property rights to the same extent as U.S. laws. The inability of the Company to protect its proprietary information could have a material adverse effect on the Company's business and consolidated results of operations.

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

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

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

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

## PRODUCTION

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

EMPLOYEES

As of January 31, 1998, the Company had 2,470 full-time employees, of which 1,784 were based in the Americas, 428 in Europe, and 258 in Asia Pacific. 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. None of the Company's employees in the United States is subject to a collective bargaining agreement, and the Company has never experienced a work stoppage. Management believes that its relations with its employees are good.

ITEM 2. PROPERTIES

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

ITEM 3. LEGAL PROCEEDINGS

In May 1997, the Company settled a lawsuit filed by Tektronix, Inc. alleging a patent infringement, pursuant to which all of Tektronix's claims have been dismissed.

In December 1994, the Company recorded a \$25.5 million litigation charge as a result of a judgment against the Company on a claim of a trade secret misappropriation brought by Vermont Microsystems, Inc. ("VMI"). The Company appealed that judgment and, upon remand to the Federal District Court, a reduced judgment was entered against the Company in the amount of \$14.2 million plus interest. On February 23, 1998, the U.S. Court of Appeals for the Second Circuit reduced the judgment to \$7.8 million. Because the case is still subject to post judgment motions and appeals, the Company has not reflected the reduction of damages in the accompanying consolidated financial statements.

Autodesk 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 Autodesk's consolidated results of operations or its financial position. However, depending on the amount and timing, an unfavorable resolution of a matter could materially affect Autodesk's future results of operations or cash flows in a particular period.

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

No matters were submitted to a vote of security holders during the fourth quarter of fiscal year 1998.

Executive Officers of the Registrant

The following sets forth certain information regarding the executive officers of the Company as of April 21, 1998:

NAME	AGE	POSITION
----	---	-----
Carol A. Bartz .....	49	Chairman of the Board and Chief Executive Officer
Eric B. Herr .....	49	President and Chief Operating Officer
Joseph H. Astroth, Ph.D.	42	Vice President, GIS Market Group
Carl Bass .....	40	Vice President, Engineering and Chief Technical Officer
Steve Cakebread .....	46	Vice President and Chief Financial Officer
James D. D'Arezzo .....	46	Vice President, Corporate Marketing
Dominic J. Gallelo ....	42	Vice President, Mechanical CAD Market Group
Stephen McMahon .....	56	Vice President, Human Resources and Facilities
Tom Norring .....	52	Vice President, Asia Pacific
Michelle Pharr .....	49	Vice President, the Americas
Marcia K. Sterling .....	54	Vice President, Business Development and General Counsel
Godfrey R. Sullivan ....	43	Vice President, Personal Solutions Group
Michael E. Sutton .....	53	Vice President, Europe/Middle East/Africa

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

ERIC B. HERR has been Autodesk's President and Chief Operating Officer since September 1996, having also served as the Acting Vice President, AEC

Market Group, from September 1996 through March 1997. Mr. Herr served as the Chief Financial Officer from the time he joined the Company in May 1992 until September 1996. From December 1992 through January 1995, Mr. Herr served as Vice President, Emerging Businesses. From January 1995 to May 1995, Mr. Herr served as Vice President, Finance and Administration.

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

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

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

JAMES D. D'AREZZO has served as Vice President, Corporate Marketing, since joining Autodesk in February 1994. Mr. D'Arezzo served as Vice President, Data Management Market Group, from February 1996 through September 1996. From February 1994 through December 1995, Mr. D'Arezzo served as Vice President, Corporate Marketing, and Vice President, GIS and DM Market Groups. From November 1993 to January 1994, Mr. D'Arezzo served as the Vice President of Corporate Business Development for Banyan Systems. From July 1990 to November 1993, Mr. D'Arezzo served as Banyan's Vice President of Marketing.

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

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

TOM NORRING has served as Vice President, Asia Pacific, since joining Autodesk in June 1996. Prior to joining Autodesk, Mr. Norring served as Vice President of Asia Pacific and Latin America and in a variety of international management positions for Hitachi Data Systems from 1978 to 1996.

MICHELLE PHARR was appointed Vice President, the Americas, in October 1997. Ms. Pharr joined Autodesk in November 1995 as Regional Director of the Western Region of the United States. Before joining Autodesk, Ms. Pharr was the Director of Western Operations at Aspect Development from July 1993 to November 1995.

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

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

MICHAEL E. SUTTON has served as Vice President, Europe/Middle East/Africa, since June 1993. Mr. Sutton joined Autodesk in October 1987 as a sales and marketing director in the United Kingdom. Mr. Sutton was the Managing Director of Autodesk's United Kingdom subsidiary from January 1990 to January 1992. From January 1992 to February 1993, Mr. Sutton served as Northern Region Manager, Europe, and from February 1993 to May 1993, he served as Acting Vice President, Europe.

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

## PART II

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

The information required by this Item is incorporated by reference to page 53 of the Company's 1998 Annual Report to Stockholders.

### ITEM 6. SELECTED FINANCIAL DATA

The information required by this Item is incorporated by reference to page 21 of the Company's 1998 Annual Report to Stockholders.

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

The information required by this Item is incorporated by reference to pages 22 through 32 of the Company's 1998 Annual Report to Stockholders.

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item is incorporated by reference to pages 33 through 51 of the Company's 1998 Annual Report to Stockholders.

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

Not applicable.

PART III

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

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

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

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

ITEM 11. EXECUTIVE COMPENSATION

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

PART IV

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

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

1. Financial Statements: The following Consolidated Financial Statements of Autodesk, Inc., and Report of Ernst & Young LLP, Independent Auditors, are incorporated by reference to pages 33 through 51 of the Registrant's 1998 Annual Report to Stockholders:

Consolidated Statement of Income--Fiscal Years Ended January 31, 1998, 1997, and 1996

Consolidated Balance Sheet--January 31, 1998 and 1997

Consolidated Statement of Cash Flows--Fiscal Years Ended January 31, 1998, 1997, and 1996

Consolidated Statement of Stockholders' Equity--Three Year Period Ended January 31, 1998

Notes to Consolidated Financial Statements

Report of Ernst & Young LLP, Independent Auditors

2. Financial Statement Schedule: The following financial statement schedule of Autodesk, Inc., for the fiscal years ended January 31, 1998, 1997, and 1996, is filed as part of this Report and should be read in conjunction with the Consolidated Financial Statements of Autodesk, Inc.

Schedule II Valuation and Qualifying Accounts..... S-1

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

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

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of Registrant
3.2(1)	Certificate of Designation of Rights, Preferences, and Privileges of Series A Participating Preferred Stock of Autodesk, Inc.
3.3	Bylaws of Registrant, as amended
4.1(2)	Preferred Shares Right Agreement dated December 14, 1995
4.2(2)	Amendment No. 1 to Rights Agreement
10.1(3)*	Registrant's 1987 Stock Option Plan, as amended
10.2(3)*	Registrant's Employee Qualified Stock Purchase Plan and form of Subscription Agreement, as amended
10.3 *	Registrant's 1990 Directors' Option Plan, as amended
10.4 *	Registrant's 1996 Stock Plan, as amended
10.5(4)*	Form of Indemnification Agreement executed by the Company and each of its officers and directors
10.6(5)*	Agreement between Registrant and Carol A. Bartz dated April 7, 1992
10.7(6)	Teleos Research 1996 Stock Plan
10.8(7)	Registrant's Nonstatutory Stock Option Plan, as amended
10.9(8)	Softdesk, Inc. 1992 Stock Option Plan
10.10(8)	Softdesk, Inc. 1993 Director Stock Option Plan
10.11(8)	Softdesk, Inc. 1993 Equity Incentive Plan
10.12 *	Registrant's 1998 Employee Qualified Stock Purchase Plan
10.13(9)	Agreement and Plan of Reorganization By and Among Autodesk, Inc., Autodesk Acquisition Corporation, and Softdesk, Inc., dated December 10, 1996, as amended December 19, 1996
13.1	Pages 33 through 53 of the Registrant's Annual Report to Stockholders for the year ended January 31, 1998 (to be deemed filed only to the extent required by the instructions to exhibits for reports on Form 10-K)
21.1	List of Subsidiaries
23.1	Consent of Independent Auditors (included on page 18 of this Report)
24.1	Power of Attorney (included on page 17 of this Report)
27.1	Financial Data Schedule restated

- (1) Incorporated by reference to the exhibit filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 1997.
- (2) Incorporated by reference to the Registrant's Report on Form 8-A filed on January 5, 1996, as amended on January 8, 1996 and January 15, 1998.
- (3) Incorporated by reference to the exhibit filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 1996.
- (4) Incorporated by reference to the exhibit filed with the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 1995.
- (5) Incorporated by reference to the exhibit filed with the Registrant's Report on Form 10-Q for the fiscal quarter ended April 30, 1992.
- (6) Incorporated by reference to the exhibit filed with the Registrant's Report on Form S-8 filed on July 23, 1996.
- (7) Incorporated by reference to the exhibit filed with the Registration Statement on Form S-8 filed on January 28, 1998.
- (8) Incorporated by reference to the exhibit filed with the Registrant's Report on Form S-8 filed on April 3, 1997.
- (9) Incorporated by reference to the exhibit filed with the Registration Statement on Form S-4 filed on March 3, 1997.

\* Denotes a management contract or compensatory plan or arrangement.

- (b) Reports on Form 8-K: No report on Form 8-K was filed by the Company during the fiscal quarter ended January 31, 1998.

With the exception of the information incorporated by reference to the Annual Report to Stockholders in Items 5, 6, 7, and 8 of Part II and Item 14 of Part IV of this Form 10-K, the Company's 1998 Annual Report to Stockholders is not to be deemed filed as a part of this Report.

Autodesk, the Autodesk logo, AutoCAD, AutoCAD LT, AutoCAD Map, AutoSketch, Kinetix, Mechanical Desktop, Picture This Home!, PlantSpec, 3D Studio MAX, AutoLISP, AutoCAD Development System, Autodesk View, Softdesk, Autodesk University, and DesignBlocks are registered trademarks, and Autodesk MapGuide, Autodesk World, Bringing Information Down to Earth, Character Studio, Design Your World, ObjectARX, 3D Studio VIZ, Autodesk WalkThrough, AutoSnap, AUGI, and Auto-Architect are trademarks of Autodesk, Inc. in the USA and/or other countries. Microsoft, Windows, and Windows NT are registered trademarks of Microsoft Corporation. All other brand names, product names, or trademarks belong to their respective holders.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

AUTODESK, INC.

By: /s/ CAROL A. BARTZ

-----  
 Carol A. Bartz  
 Chairman of the Board

Dated: February 3, 1999

POWER OF ATTORNEY

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

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

Signature	Title	Date
/s/ CAROL A. BARTZ ----- Carol A. Bartz	Chief Executive Officer and Director (Principal Executive Officer)	February 3, 1999
/s/ STEVE CAKEBREAD ----- Steve Cakebread	Vice President and Chief Financial Officer (Principal Financial Officer)	February 3, 1999
/s/ DAVID S. OPPENHEIMER ----- David S. Oppenheimer	Vice President, Finance (Principal Accounting Officer)	February 3, 1999
/s/ MARK A. BERTELSEN ----- Mark A. Bertelsen	Director	February 3, 1999
/s/ CRAWFORD W. BEVERIDGE ----- Crawford W. Beveridge	Director	February 3, 1999
/s/ J. HALLAM DAWSON ----- J. Hallam Dawson	Director	February 3, 1999
/s/ PAUL OTELLINI ----- Paul Otellini	Director	February 3, 1999
/s/ MORTON L. TOPFER ----- Morton L. Topfer	Director	February 3, 1999
/s/ MARY ALICE TAYLOR ----- Mary Alice Taylor	Director	February 3, 1999

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K/A) of Autodesk, Inc. of our report dated February 24, 1998 (except for the second paragraph of Note 1 as to which the date is January 25, 1999), included in the 1998 Annual Report to Stockholders of Autodesk, Inc.

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

We also consent to the incorporation by reference in the Registration Statements (Form S-8 No. 33-15675, No. 33-22656, No. 33-39458, No. 33-41265, No. 33-51110, No. 33-54683, No. 33-61015, No. 333-08693, No. 333-15037, No. 333-24469, and No. 333-45045) pertaining to the 1987 Stock Option Plan, 1990 Directors' Option Plan, 1996 Stock Plan, the Autodesk, Inc. Nonstatutory Stock Option Plan, and Employee Qualified Stock Purchase Plan of Autodesk, Inc., the Teleos Research 1996 Stock Plan and the Softdesk, Inc. 1992 Stock Option Plan, Softdesk, Inc. 1993 Director Stock Option Plan and Softdesk, Inc. 1993 Equity Incentive Plan of our report dated February 24, 1998 (except for the second paragraph of Note 1 as to which the date is January 25, 1999), with respect to the consolidated financial statements incorporated herein by reference, and our report included in the preceding paragraph with respect to the financial statement schedule included in this Annual Report (Form 10-K/A) of Autodesk, Inc.

/s/ ERNST & YOUNG LLP

ERNST & YOUNG LLP

San Jose, California  
February 3, 1999

## Schedule II

## AUTODESK, INC.

## VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Year	Additions-- Charged to Costs and Expenses	Deductions Write-Offs	Balance at End of Year
Fiscal year ended January 31, 1998				
Allowance for doubtful accounts	\$ 6,635,000	\$ 3,701,000	\$ 3,200,000	\$ 7,136,000
Allowance for stock balancing and product rotation	\$17,175,000	\$38,419,000	\$35,375,000	\$20,219,000
Fiscal year ended January 31, 1997				
Allowance for doubtful accounts	\$6,731,000	\$ 1,735,000	\$ 1,831,000	\$ 6,635,000
Allowance for stock balancing and product rotation	\$14,607,000	\$46,884,000	\$44,316,000	\$17,175,000
Fiscal year ended January 31, 1996				
Allowance for doubtful accounts	\$6,457,000	\$ 3,527,000	\$ 3,253,000	\$ 6,731,000
Allowance for stock balancing and product rotation	\$6,892,000	\$58,889,000	\$51,174,000	\$14,607,000

AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION  
OF  
AUTODESK, INC.

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

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

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

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

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

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

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

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

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

foregoing.

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

- FIFTH: The Corporation is to have perpetual existence.
- SIXTH: The election of directors need not be by written ballot unless a stockholder demands election by written ballot at a meeting of stockholders and before voting begins or unless the Bylaws of the Corporation shall so provide.
- SEVENTH: The number of directors which constitute the whole Board of Directors of the Corporation shall be designated in the Bylaws of the Corporation.
- EIGHTH: In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, the Board of Directors is expressly authorized to adopt, alter, amend or repeal the Bylaws of the Corporation.
- NINTH: To the fullest extent permitted by the Delaware General Corporation Law as the same exists or may hereafter be amended, no director of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director.
- Neither any amendment nor repeal of this Article, nor the adoption of any provision of this Amended and Restated Certificate of Incorporation inconsistent with this Article, shall eliminate or reduce the effect of this Article in respect of any matter occurring, or any cause of action, suit or claim that, but for this Article, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.
- TENTH: At the election of directors of the Corporation, each holder of stock of any class or series shall be entitled to one vote for each share held. No stockholder will be permitted to cumulate votes at any election of directors.
- ELEVENTH: Meetings of stockholders may be held within or without the State of Delaware, as the Bylaws may provide. The books of the Corporation may be kept

(subject to any provision contained in the laws of the State of Delaware) outside of the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws of the Corporation.

TWELFTH:

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

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

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

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

/s/ CAROL A. BARTZ

-----  
Carol A. Bartz  
Chief Executive Officer

/s/ MARCIA K. STERLING

-----  
Marcia K. Sterling  
Secretary

BYLAWS

OF

AUTODESK, INC.\*  
(A DELAWARE CORPORATION)

-----  
\*As Amended through December 12, 1997

BYLAWS OF  
AUTODESK, INC.  
(a Delaware corporation)

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BYLAWS  
-----  
OF  
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AUTODESK, INC.  
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(a Delaware corporation)

ARTICLE I

CORPORATE OFFICES  
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I.1 REGISTERED OFFICE  
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The registered office of the corporation shall be fixed in the certificate of incorporation of the corporation.

I.2 OTHER OFFICES  
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The board of directors may at any time establish branch or subordinate offices at any place or places where the corporation is qualified to do business.

ARTICLE II

MEETINGS OF STOCKHOLDERS  
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II.1 PLACE OF MEETINGS  
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Meetings of stockholders shall be held at any place within or outside the State of Delaware designated by the board of directors. In the absence of any such designation, stockholders' meetings shall be held at the principal executive office of the corporation.

II.2 ANNUAL MEETING  
-----

The annual meeting of stockholders shall be held each year on a date and at a time designated by the board of directors. In the absence of such designation, the annual meeting of stockholders shall be held on the third Friday in June in each year at 3:00 p.m. However, if such day falls on a legal holiday, then the meeting shall be held at the same time and place on the next succeeding full business day. At the meeting, directors shall be elected, and any other proper business may be transacted.

II.3 SPECIAL MEETING  
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A special meeting of the stockholders may be called at any time by the board of directors, or by the chairman of the board, or by the president, or by one or more stockholders holding shares in the aggregate entitled to cast not less than ten percent (10%) of the votes of all shares of stock owned by stockholders entitled to vote at that meeting.

#### II.4 NOTICE OF STOCKHOLDERS' MEETINGS

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All notices of meetings of stockholders shall be sent or otherwise given in accordance with Section 2.5 of these bylaws not less than ten (10) nor more than sixty (60) days before the date of the meeting. The notice shall specify the place, date and hour of the meeting and (i) in the case of a special meeting, the purpose or purposes for which the meeting is called (no business other than that specified in the notice may be transacted) or (ii) in the case of the annual meeting, those matters which the board of directors, at the time of giving the notice, intends to present for action by the stockholders (but any proper matter may be presented at the meeting for such action). The notice of any meeting at which directors are to be elected shall include the name of any nominee or nominees who, at the time of the notice, the board intends to present for election.

#### II.5 ADVANCE NOTICE OF STOCKHOLDER NOMINEES AND STOCKHOLDER BUSINESS

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To be properly brought before an annual meeting or special meeting, nominations for the election of director or other business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors, (b) otherwise properly brought before the meeting by or at the direction of the board of directors or (c) otherwise properly brought before the meeting by a stockholder. For such nominations or other business to be considered properly brought before the meeting by a stockholder, such stockholder must have given timely notice and in proper form of his intent to bring such business before such meeting. To be timely, such stockholder's notice must be delivered to or mailed and received by the secretary of the Corporation not less than 90 days prior to the meeting; provided, however, that in the case of a meeting called by or on behalf of the Board of Directors of the Corporation where prior notice, or public disclosure, of the meeting has not been given or made at least 100 days prior to such meeting, notice by the stockholder to be timely must be so received not later than the close of business on the tenth day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. To be in proper form, a stockholder's notice to the secretary shall set forth:

(i) the name and address of the stockholder who intends to make the nominations, propose the business, and, as the case may be, the name and address of the person or persons to be nominated or the nature of the business to be proposed;

(ii) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting and, if applicable, intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice or introduce the

business specified in the notice;

(iii) if applicable, a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder;

(iv) such other information regarding each nominee or each matter of business to be proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had the nominee been nominated, or intended to be nominated, or the matter been proposed, or intended to be proposed by the board of directors' and

(v) if applicable, the consent of each nominee to serve as director of the Corporation if so elected.

The chairman of the meeting may refuse to acknowledge the nomination of any person or the proposal of any business not made in compliance with the foregoing procedure.

#### II.6 MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE

-----

Written notice of any meeting of stockholders shall be given either personally or by first-class mail or by telegraphic or other written communication. Notices not personally delivered shall be sent charges prepaid and shall be addressed to the stockholder at the address of that stockholder appearing on the books of the corporation or given by the stockholder to the corporation for the purpose of notice. Notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by telegram or other means of written communication.

An affidavit of the mailing or other means of giving any notice of any stockholders' meeting, executed by the secretary, assistant secretary or any transfer agent of the corporation giving the notice, shall be prima facie evidence of the giving of such notice.

#### II.7 QUORUM

-----

The holders of a majority in voting power of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the certificate of incorporation. If, however, such quorum is not present or represented at any meeting of the stockholders, then either (i) the chairman of the meeting or (ii) the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting in accordance with Section 2.7 of these bylaws.

When a quorum is present at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which, by express provision of the laws of the State of Delaware or of the certificate of incorporation or these bylaws, a different vote is required, in

which case such express provision shall govern and control the decision of the question.

If a quorum be initially present, the stockholders may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum, if any action taken is approved by a majority of the stockholders initially constituting the quorum.

#### II.8 ADJOURNED MEETING; NOTICE

When a meeting is adjourned to another time and place, unless these bylaws otherwise require, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business that might have been transacted at the original meeting. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

#### II.9 VOTING

The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 2.11 of these bylaws, subject to the provisions of Sections 217 and 218 of the General Corporation Law of Delaware (relating to voting rights of fiduciaries, pledgors and joint owners, and to voting trusts and other voting agreements).

Except as may be otherwise provided in the certificate of incorporation or these bylaws, each stockholder shall be entitled to one vote for each share of capital stock held by such stockholder.

#### II.10 STOCKHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING

Any action required or permitted to be taken at any annual or special meeting of stockholders may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing setting forth the action so taken shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Such consents shall be delivered to the corporation by delivery to its registered office in the state of Delaware, its principal place of business, or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to a corporation's registered office shall be by hand or by certified or registered mail, return receipt requested.

#### II.11 RECORD DATE FOR STOCKHOLDER NOTICE; VOTING

For purposes of determining the stockholders entitled to notice of any meeting or to vote thereat, the board of directors may fix, in advance, a record date, which shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors and which shall not be more than sixty (60) days nor less than ten (10) days before the date of any such meeting, and

in such event only stockholders of record on the date so fixed are entitled to notice and to vote, notwithstanding any transfer of any shares on the books of the corporation after the record date.

If the board of directors does not so fix a record date, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the business day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting unless the board of directors fixes a new record date for the adjourned meeting, but the board of directors shall fix a new record date if the meeting is adjourned for more than thirty (30) days from the date set for the original meeting.

The record date for any other purpose shall be as provided in Section 8.1 of these bylaws.

#### II.12 PROXIES

-----

Every person entitled to vote for directors, or on any other matter, shall have the right to do so either in person or by one or more agents authorized by a written proxy signed by the person and filed with the secretary of the corporation, but no such proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. A proxy shall be deemed signed if the stockholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission, telefacsimile or otherwise) by the stockholder or the stockholder's attorney-in-fact. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212(e) of the General Corporation Law of Delaware.

#### II.13 ORGANIZATION

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The president, or in the absence of the president, the chairman of the board, shall call the meeting of the stockholders to order, and shall act as chairman of the meeting. In the absence of the president, the chairman of the board, and all of the vice presidents, the stockholders shall appoint a chairman for such meeting. The chairman of any meeting of stockholders shall determine the order of business and the procedures at the meeting, including such matters as the regulation of the manner of voting and the conduct of business. The secretary of the corporation shall act as secretary of all meetings of the stockholders, but in the absence of the secretary at any meeting of the stockholders, the chairman of the meeting may appoint any person to act as secretary of the meeting.

#### II.14 LIST OF STOCKHOLDERS ENTITLED TO VOTE

-----

The officer who has charge of the stock ledger of the corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business

hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

ARTICLE III

DIRECTORS  
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III.1 POWERS  
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Subject to the provisions of the General Corporation Law of Delaware and to any limitations in the certificate of incorporation or these bylaws relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

III.2 NUMBER OF DIRECTORS  
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The board of directors shall consist of seven (7) members. The number of directors may be changed by an amendment to this bylaw, duly adopted by the board of directors or by the stockholders, or by a duly adopted amendment to the certificate of incorporation.

III.3 ELECTION AND TERM OF OFFICE OF DIRECTORS  
-----

Except as provided in Section 3.4 of these bylaws, directors shall be elected at each annual meeting of stockholders to hold office until the next annual meeting. Each director, including a director elected or appointed to fill a vacancy, shall hold office until the expiration of the term for which elected and until a successor has been elected and qualified.

III.4 RESIGNATION AND VACANCIES  
-----

Any director may resign effective on giving written notice to the chairman of the board, the president, the secretary or the board of directors, unless the notice specifies a later time for that resignation to become effective. If the resignation of a director is effective at a future time, the board of directors may elect a successor to take office when the resignation becomes effective.

Vacancies in the board of directors may be filled by a majority of the remaining directors, even if less than a quorum, or by a sole remaining director; however, a vacancy created by the removal of a director by the vote of the stockholders or by court order may be filled only by the affirmative vote of a majority of the shares represented and voting at a duly held meeting at which a quorum is present (which shares voting affirmatively also constitute a majority of the required

quorum). Each director so elected shall hold office until the next annual meeting of the stockholders and until a successor has been elected and qualified.

Unless otherwise provided in the certificate of incorporation or these bylaws:

(i) Vacancies and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director.

(ii) Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the certificate of incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected.

If at any time, by reason of death or resignation or other cause, the corporation should have no directors in office, then any officer or any stockholder or an executor, administrator, trustee or guardian of a stockholder, or other fiduciary entrusted with like responsibility for the person or estate of a stockholder, may call a special meeting of stockholders in accordance with the provisions of the certificate of incorporation or these bylaws, or may apply to the Court of Chancery for a decree summarily ordering an election as provided in Section 211 of the General Corporation Law of Delaware.

If, at the time of filling any vacancy or any newly created directorship, the directors then in office constitute less than a majority of the whole board (as constituted immediately prior to any such increase), then the Court of Chancery may, upon application of any stockholder or stockholders holding at least ten (10) percent of the total number of the shares at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office as aforesaid, which election shall be governed by the provisions of Section 211 of the General Corporation Law of Delaware as far as applicable.

### III.5 REMOVAL OF DIRECTORS

-----

Unless otherwise restricted by statute, by the certificate of incorporation or by these bylaws, any director or the entire board of directors may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors; provided, however, that, if and so long as stockholders of the corporation are entitled to cumulative voting, if less than the entire board is to be removed, no director may be removed without cause if the votes cast against his removal would be sufficient to elect him if then cumulatively voted at an election of the entire board of directors.

### III.6 PLACE OF MEETINGS; MEETINGS BY TELEPHONE

-----

Regular meetings of the board of directors may be held at any place within or outside the State of Delaware that has been designated from time to time by resolution of the board. In the absence of such a designation, regular meetings shall be held at the principal executive office of the corporation. Special meetings of the board may be held at any place within or outside the State of Delaware that has been designated in the notice of the meeting or, if not stated in the notice or if there is no notice, at the principal executive office of the corporation.

Any meeting of the board, regular or special, may be held by conference telephone or similar communication equipment, so long as all directors participating in the meeting can hear one another; and all such participating directors shall be deemed to be present in person at the meeting.

### III.7 FIRST MEETINGS

-----

The first meeting of each newly elected board of directors shall be held at such time and place as shall be fixed by the vote of the stockholders at the annual meeting. In the event of the failure of the stockholders to fix the time or place of such first meeting of the newly elected board of directors, or in the event such meeting is not held at the time and place so fixed by the stockholders, the meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the board of directors, or as shall be specified in a written waiver signed by all of the directors.

### III.8 REGULAR MEETINGS

-----

Regular meetings of the board of directors may be held without notice at such time as shall from time to time be determined by the board of directors. If any regular meeting day shall fall on a legal holiday, then the meeting shall be held at the same time and place on the next succeeding full business day.

### III.9 SPECIAL MEETINGS; NOTICE

-----

Special meetings of the board of directors for any purpose or purposes may be called at any time by the chairman of the board, the president, any vice president, the secretary or any two directors.

Notice of the time and place of special meetings shall be delivered personally or by telephone to each director or sent by first-class mail, telecopy or telegram, charges prepaid, addressed to each director at that director's address as it is shown on the records of the corporation. If the notice is mailed, it shall be deposited in the United States mail at least four (4) days before the time of the holding of the meeting. If the notice is delivered personally or by telephone, telecopy or telegram, it shall be delivered personally or by telephone or to the telegraph company at least forty-eight (48) hours before the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. The

notice need not specify the purpose or the place of the meeting, if the meeting is to be held at the principal executive office of the corporation.

III.10 QUORUM  
-----

A majority of the authorized number of directors shall constitute a quorum for the transaction of business, except to adjourn as provided in Section 3.12 of these bylaws. Every act or decision done or made by a majority of the directors present at a duly held meeting at which a quorum is present shall be regarded as the act of the board of directors, subject to the provisions of the certificate of incorporation and applicable law.

A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the quorum for that meeting.

III.11 WAIVER OF NOTICE  
-----

Notice of a meeting need not be given to any director (i) who signs a waiver of notice, whether before or after the meeting, or (ii) who attends the meeting other than for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened. All such waivers shall be filed with the corporate records or made part of the minutes of the meeting. A waiver of notice need not specify the purpose of any regular or special meeting of the board of directors.

III.12 ADJOURNMENT  
-----

A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting of the board to another time and place.

III.13 NOTICE OF ADJOURNMENT  
-----

Notice of the time and place of holding an adjourned meeting of the board need not be given unless the meeting is adjourned for more than twenty-four (24) hours. If the meeting is adjourned for more than twenty-four (24) hours, then notice of the time and place of the adjourned meeting shall be given before the adjourned meeting takes place, in the manner specified in Section 3.9 of these bylaws, to the directors who were not present at the time of the adjournment.

III.14 BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING  
-----

Any action required or permitted to be taken by the board of directors may be taken without a meeting, provided that all members of the board individually or collectively consent in writing to that action. Such action by written consent shall have the same force and effect as a unanimous vote of the board of directors. Such written consent and any counterparts thereof shall be filed with the minutes of the proceedings of the board of directors.

III.15 FEES AND COMPENSATION OF DIRECTORS  
-----

Directors and members of committees may receive such compensation, if any, for their services and such reimbursement of expenses as may be fixed or determined by resolution of the board of directors. This Section 3.15 shall not be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee or otherwise and receiving compensation for those services.

III.16 APPROVAL OF LOANS TO OFFICERS  
-----

The corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the corporation or any of its subsidiaries, including any officer or employee who is a director of the corporation or any of its subsidiaries, whenever, in the judgment of the directors, such loan, guaranty or assistance may reasonably be expected to benefit the corporation. The loan, guaranty or other assistance may be with or without interest and may be unsecured, or secured in such manner as the board of directors shall approve, including, without limitation, a pledge of shares of stock of the corporation. Nothing contained in this section shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the corporation at common law or under any statute.

III.17 SOLE DIRECTOR PROVIDED BY CERTIFICATE OF INCORPORATION  
-----

In the event only one director is required by these bylaws or the certificate of incorporation, then any reference herein to notices, waivers, consents, meetings or other actions by a majority or quorum of the directors shall be deemed to refer to such notice, waiver, etc., by such sole director, who shall have all the rights and duties and shall be entitled to exercise all of the powers and shall assume all the responsibilities otherwise herein described as given to the board of directors.

ARTICLE IV

COMMITTEES  
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IV.1 COMMITTEES OF DIRECTORS  
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The board of directors may, by resolution adopted by a majority of the authorized number of directors, designate one (1) or more committees, each consisting of one (1) or more directors, to serve at the pleasure of the board. The board may designate one (1) or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. The appointment of members or alternate members of a committee requires the vote of a majority of the authorized number of directors. Any committee, to the extent provided in the resolution of the board, shall have and may exercise all the powers and authority of the board, but no such committee shall have the power or authority to (i) amend the certificate of incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the board of directors as provided in Section 151(a) of the General Corporation Law of Delaware, fix the designations and any of the preferences or rights of

such shares relating to dividends, redemption, dissolution, any distribution of assets of the corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the corporation), (ii) adopt an agreement of merger or consolidation under Sections 251 or 252 of the General Corporation Law of Delaware, (iii) recommend to the stockholders the sale, lease or exchange of all or substantially all of the corporation's property and assets, (iv) recommend to the stockholders a dissolution of the corporation or a revocation of a dissolution or (v) amend the bylaws of the corporation; and, unless the board resolution establishing the committee, the bylaws or the certificate of incorporation expressly so provide, no such committee shall have the power or authority to declare a dividend, to authorize the issuance of stock, or to adopt a certificate of ownership and merger pursuant to Section 253 of the General Corporation Law of Delaware.

#### IV.2 MEETINGS AND ACTION OF COMMITTEES

-----

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the following provisions of Article III of these bylaws: Section 3.6 (place of meetings; meetings by telephone), Section 3.8 (regular meetings), Section 3.9 (special meetings; notice), Section 3.10 (quorum), Section 3.11 (waiver of notice), Section 3.12 (adjournment), Section 3.13 (notice of adjournment) and Section 3.14 (board action by written consent without meeting), with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the board of directors and its members; provided, however, that the time of regular meetings of committees may be determined either by resolution of the board of directors or by resolution of the committee, that special meetings of committees may also be called by resolution of the board of directors, and that notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

#### IV.3 COMMITTEE MINUTES

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Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required.

### ARTICLE V

#### OFFICERS

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##### V.1 OFFICERS

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The Corporate Officers of the corporation shall be a chief executive officer, a president, a secretary and a chief financial officer. The corporation may also have, at the discretion of the board of directors, a chairman of the board, one or more vice presidents (however denominated), one or more assistant secretaries, one or more assistant treasurers, and such other officers as may be

appointed in accordance with the provisions of Section 5.3 of these bylaws. Any number of offices may be held by the same person.

In addition to the Corporate Officers of the Company described above, there may also be such Administrative (or non-executive) Officers of the corporation as may be designated and appointed from time to time by the chief executive officer of the corporation in accordance with the provisions of Section 5.13 of these bylaws.

#### V.2 ELECTION OF OFFICERS

-----

The Corporate Officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 5.3 or Section 5.5 of these bylaws, shall be chosen by the board of directors, subject to the rights, if any, of an officer under any contract of employment, and shall hold their respective offices for such terms as the board of directors may from time to time determine.

#### V.3 SUBORDINATE OFFICERS

-----

The board of directors may appoint, or may empower the chief executive officer to appoint such executive officers who are not Corporate Officers as the business of the corporation may require, each of whom shall hold office for such period, have such power and authority, and perform such duties as are provided in these bylaws or as the board of directors may from time to time determine.

The chief executive officer may from time to time designate and appoint Administrative (or non-executive) Officers of the corporation in accordance with the provisions of Section 5.13 of these bylaws.

#### V.4 REMOVAL AND RESIGNATION OF OFFICERS

-----

Subject to the rights, if any, of an executive officer under any contract of employment, any executive officer may be removed, either with or without cause, by the board of directors at any regular or special meeting of the board or, except in case of an executive officer chosen by the board of directors, by any Corporate Officer upon whom such power of removal may be conferred by the board of directors.

Any executive officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the executive officer is a party.

Any Administrative (or non-executive) Officer may be removed, either with or without cause, at any time by the chief executive officer. Any Administrative (or non-executive) Officer may resign

at any time by giving written notice to the chief executive officer or to the secretary of the corporation.

V.5 VACANCIES IN OFFICES

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A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these bylaws for regular appointments to that office.

V.6 CHAIRMAN OF THE BOARD

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The chairman of the board, if such an officer be elected, shall, if present, preside at meetings of the board of directors and exercise such other powers and perform such other duties as may from time to time be assigned to him by the board of directors or as may be prescribed by these bylaws. If there is no chairman of the board, then the chief executive officer of the corporation shall have the powers and duties prescribed herein.

V.7 CHIEF EXECUTIVE OFFICER

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Subject to such supervisory powers, if any, as may be given by the board of directors to the chairman of the board, if there be such an officer, the chief executive officer of the corporation shall, subject to the control of the board of directors, have general supervision, direction and control of the business and the officers of the corporation. He or she shall preside at all meetings of the stockholders and, in the absence or nonexistence of a chairman of the board, at all meetings of the board of directors.

V.8 PRESIDENT AND CHIEF OPERATING OFFICER

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Subject to such supervisory powers, if any, as may be given by the board of directors to the chief executive officer, if there be such an officer, the president and chief operating officer of the corporation shall, subject to the control of the board of directors, have general supervision over the operations of the corporation. He or she shall have the general powers and duties of management usually vested in the office of president of a corporation, and shall have such other powers and perform such other duties as may be prescribed by the board of directors or these bylaws.

V.9 VICE PRESIDENTS

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In the absence or disability of the president, and if there is no chairman of the board, the vice presidents, if any, in order of their rank as fixed by the board of directors or, if not ranked, a vice president designated by the board of directors, shall perform all the duties of the president and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the board of directors, these bylaws, the president or the chairman of the board.

V.10 SECRETARY  
-----

The secretary shall keep or cause to be kept, at the principal executive office of the corporation or such other place as the board of directors may direct, a book of minutes of all meetings and actions of the board of directors, committees of directors and stockholders. The minutes shall show the time and place of each meeting, whether regular or special (and, if special, how authorized and the notice given), the names of those present at directors' meetings or committee meetings, the number of shares present or represented at stockholders' meetings and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation's transfer agent or registrar, as determined by resolution of the board of directors, a share register or a duplicate share register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates evidencing such shares and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the board of directors required to be given by law or by these bylaws. He or she shall keep the seal of the corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the board of directors or by these bylaws.

V.11 CHIEF FINANCIAL OFFICER  
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The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings and shares. The books of account shall at all reasonable times be open to inspection by any director for a purpose reasonably related to his position as a director.

The chief financial officer shall deposit all money and other valuables in the name and to the credit of the corporation with such depositaries as may be designated by the board of directors. He or she shall disburse the funds of the corporation as may be ordered by the board of directors, shall render to the president and directors, whenever they request it, an account of all of his or her transactions as chief financial officer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the board of directors or these bylaws.

V.12 ASSISTANT SECRETARY  
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The assistant secretary, if any, or, if there is more than one, the assistant secretaries in the order determined by the board of directors (or if there be no such determination, then in the order of their election) shall, in the absence of the secretary or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as the board of directors may from time to time prescribe.

V.13 ADMINISTRATIVE OFFICERS  
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In addition to the Corporate Officers of the corporation as provided in Section 5.1 of these bylaws and such subordinate executive officers as may be appointed in accordance with Section 5.3 of these bylaws, there may also be such Administrative (or non-executive) officers of the corporation as may be designated and appointed from time to time by the chief executive officer of the corporation. Administrative Officers shall perform such duties and have such powers as from time to time may be determined by the chief executive officer or the board of directors in order to assist the Corporate Officers in the furtherance of their duties. In the performance of such duties and the exercise of such powers, however, such Administrative Officers shall have limited authority to act on behalf of the corporation as the board of directors shall establish, including but not limited to limitations on the dollar amount and on the scope of agreements or commitments that may be made by such Administrative Officers on behalf of the corporation, which limitations may not be exceeded by such individuals or altered by the chief executive officer without further approval by the board of directors.

V.14 AUTHORITY AND DUTIES OF OFFICERS  
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In addition to the foregoing powers, authority and duties, all officers of the corporation shall respectively have such authority and powers and perform such duties in the management of the business of the corporation as may be designated from time to time by the board of directors.

ARTICLE VI

INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES  
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AND OTHER AGENTS  
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VI.1 INDEMNIFICATION OF DIRECTORS AND OFFICERS  
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The corporation shall, to the maximum extent and in the manner permitted by the General Corporation Law of Delaware as the same now exists or may hereafter be amended, indemnify any person against expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred in connection with any threatened, pending or completed action, suit, or proceeding in which such person was or is a party or is threatened to be made a party by reason of the fact that such person is or was a director or officer of the corporation. For purposes of this Section 6.1, a "director" or "officer" of the corporation shall mean any person (i) who is or was a director or officer of the corporation, (ii) who is or was serving at the request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, or (iii) who was a director or officer of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

The corporation shall be required to indemnify a director or officer in connection with an

action, suit, or proceeding (or part thereof) initiated by such director or officer only if the initiation of such action, suit, or proceeding (or part thereof) by the director or officer was authorized by the board of Directors of the corporation.

The corporation shall pay the expenses (including attorney's fees) incurred by a director or officer of the corporation entitled to indemnification hereunder in defending any action, suit or proceeding referred to in this Section 6.1 in advance of its final disposition; provided, however, that payment of expenses incurred by a director or officer of the corporation in advance of the final disposition of such action, suit or proceeding shall be made only upon receipt of an undertaking by the director or officer to repay all amounts advanced if it should ultimately be determined that the director or officer is not entitled to be indemnified under this Section 6.1 or otherwise.

The rights conferred on any person by this Article shall not be exclusive of any other rights which such person may have or hereafter acquire under any statute, provision of the corporation's Certificate of Incorporation, these bylaws, agreement, vote of the stockholders or disinterested directors or otherwise.

Any repeal or modification of the foregoing provisions of this Article shall not adversely affect any right or protection hereunder of any person in respect of any act or omission occurring prior to the time of such repeal or modification.

#### VI.2 INDEMNIFICATION OF OTHERS

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The corporation shall have the power, to the maximum extent and in the manner permitted by the General Corporation Law of Delaware as the same now exists or may hereafter be amended, to indemnify any person (other than directors and officers) against expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred in connection with any threatened, pending or completed action, suit, or proceeding, in which such person was or is a party or is threatened to be made a party by reason of the fact that such person is or was an employee or agent of the corporation. For purposes of this Section 6.2, an "employee" or "agent" of the corporation (other than a director or officer) shall mean any person (i) who is or was an employee or agent of the corporation, (ii) who is or was serving at the request of the corporation as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or (iii) who was an employee or agent of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation.

#### VI.3 INSURANCE

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The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the corporation would have the power to indemnify him or her against such liability under the provisions of the General Corporation Law of Delaware.

ARTICLE VII

RECORDS AND REPORTS  
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VII.1 MAINTENANCE AND INSPECTION OF RECORDS  
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The corporation shall, either at its principal executive office or at such place or places as designated by the board of directors, keep a record of its stockholders listing their names and addresses and the number and class of shares held by each stockholder, a copy of these bylaws as amended to date, accounting books and other records of its business and properties.

Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the corporation's stock ledger, a list of its stockholders, and its other books and records and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent is the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in Delaware or at its principal place of business.

VII.2 INSPECTION BY DIRECTORS  
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Any director shall have the right to examine the corporation's stock ledger, a list of its stockholders and its other books and records for a purpose reasonably related to his or her position as a director.

VII.3 ANNUAL STATEMENT TO STOCKHOLDERS  
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The board of directors shall present at each annual meeting, and at any special meeting of the stockholders when called for by vote of the stockholders, a full and clear statement of the business and condition of the corporation.

VII.4 REPRESENTATION OF SHARES OF OTHER CORPORATIONS  
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The chairman of the board, if any, the president, any vice president, the chief financial officer, the secretary or any assistant secretary of this corporation, or any other person authorized by the board of directors or the president or a vice president, is authorized to vote, represent and exercise on behalf of this corporation all rights incident to any and all shares of the stock of any other corporation or corporations standing in the name of this corporation. The authority herein granted may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

VII.5 CERTIFICATION AND INSPECTION OF BYLAWS  
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The original or a copy of these bylaws, as amended or otherwise altered to date, certified by the secretary, shall be kept at the corporation's principal executive office and shall be open to inspection by the stockholders of the corporation, at all reasonable times during office hours.

ARTICLE VIII

GENERAL MATTERS  
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VIII.1 RECORD DATE FOR PURPOSES OTHER THAN NOTICE AND VOTING  
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For purposes of determining the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the board of directors may fix, in advance, a record date, which shall not precede the date upon which the resolution fixing the record date is adopted and which shall not be more than sixty (60) days before any such action. In that case, only stockholders of record at the close of business on the date so fixed are entitled to receive the dividend, distribution or allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date so fixed, except as otherwise provided by law.

If the board of directors does not so fix a record date, then the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the board of directors adopts the applicable resolution.

VIII.2 CHECKS; DRAFTS; EVIDENCES OF INDEBTEDNESS  
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From time to time, the board of directors shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the corporation, and only the persons so authorized shall sign or endorse those instruments.

VIII.3 CORPORATE CONTRACTS AND INSTRUMENTS: HOW EXECUTED  
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The board of directors, except as otherwise provided in these bylaws, may authorize and empower any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such power and authority may be general or confined to specific instances. Unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

VIII.4 STOCK CERTIFICATES; TRANSFER; PARTLY PAID SHARES  
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The shares of the corporation shall be represented by certificates, provided that the board of directors of the corporation may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Notwithstanding the adoption of such a resolution by the board of directors, every holder of stock

represented by certificates and, upon request, every holder of uncertificated shares, shall be entitled to have a certificate signed by, or in the name of the corporation by, the chairman or vice-chairman of the board of directors, or the president or vice-president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary of such corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

Certificates for shares shall be of such form and device as the board of directors may designate and shall state the name of the record holder of the shares represented thereby; its number; date of issuance; the number of shares for which it is issued; a summary statement or reference to the powers, designations, preferences or other special rights of such stock and the qualifications, limitations or restrictions of such preferences and/or rights, if any; a statement or summary of liens, if any; a conspicuous notice of restrictions upon transfer or registration of transfer, if any; a statement as to any applicable voting trust agreement; if the shares be assessable, or, if assessments are collectible by personal action, a plain statement of such facts.

Upon surrender to the secretary or transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

The corporation may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid therefor. Upon the face or back of each stock certificate issued to represent any such partly paid shares, or upon the books and records of the corporation in the case of uncertificated partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. Upon the declaration of any dividend on fully paid shares, the corporation shall declare a dividend upon partly paid shares of the same class, but only upon the basis of the percentage of the consideration actually paid thereon.

#### VIII.5 SPECIAL DESIGNATION ON CERTIFICATES

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If the corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the corporation shall issue to represent such class or series of stock; provided, however, that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the corporation shall issue to represent such class or series of stock a statement that the corporation will furnish without charge to each stockholder who so requests the powers, the designations, the preferences and the relative, participating, optional or other special

rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

VIII.6 LOST CERTIFICATES  
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Except as provided in this Section 8.6, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation and cancelled at the same time. The board of directors may, in case any share certificate or certificate for any other security is lost, stolen or destroyed, authorize the issuance of replacement certificates on such terms and conditions as the board may require; the board may require indemnification of the corporation secured by a bond or other adequate security sufficient to protect the corporation against any claim that may be made against it, including any expense or liability, on account of the alleged loss, theft or destruction of the certificate or the issuance of the replacement certificate.

VIII.7 TRANSFER AGENTS AND REGISTRARS  
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The board of directors may appoint one or more transfer agents or transfer clerks, and one or more registrars, each of which shall be an incorporated bank or trust company -- either domestic or foreign, who shall be appointed at such times and places as the requirements of the corporation may necessitate and the board of directors may designate.

VIII.8 CONSTRUCTION; DEFINITIONS  
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Unless the context requires otherwise, the general provisions, rules of construction and definitions in the General Corporation Law of Delaware shall govern the construction of these bylaws. Without limiting the generality of this provision, as used in these bylaws, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both an entity and a natural person.

ARTICLE IX

AMENDMENTS  
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The original or other bylaws of the corporation may be adopted, amended or repealed by the stockholders entitled to vote; provided, however, that the corporation may, in its certificate of incorporation, confer the power to adopt, amend or repeal bylaws upon the directors. The fact that such power has been so conferred upon the directors shall not divest the stockholders of the power, nor limit their power to adopt, amend or repeal bylaws.

Whenever an amendment or new bylaw is adopted, it shall be copied in the book of bylaws with the original bylaws, in the appropriate place. If any bylaw is repealed, the fact of repeal with the date of the meeting at which the repeal was enacted or the filing of the operative written consent(s) shall be stated in said book.

AMENDMENT NO. 1 TO RIGHTS AGREEMENT  
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THIS AMENDMENT NO. 1 (this "Amendment"), dated as of January 14, 1998, to the Rights Agreement, dated as of December 14, 1995 (the "Rights Agreement"), between Autodesk, Inc., a Delaware corporation (the "Company"), and Harris Trust and Savings Bank, as Rights Agent (the "Rights Agent").

A. The Company and the Rights Agent have heretofore executed and entered into the Rights Agreement. Pursuant to Section 27 of the Rights Agreement, the Company and the Rights Agent may from time to time supplement or amend the Rights Agreement in accordance with the provisions of Section 27 thereof.

B. The Board of Directors of the Company has determined that the amendments to the Rights Agreement set forth below are in the best interests of the stockholders of the Company.

In consideration of the foregoing and the mutual agreements set forth herein, the parties hereto agree as follows:

1. Section 1(b) of the Rights Agreement is hereby amended and restated in its entirety to read as follows:

(b) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as in effect on the date of this Agreement; provided, however that the acquisition by or beneficial ownership of any Person of less than 20% of the "Voting Securities" (as defined in Rule 12b-2 of the General Rules and Regulations under the Exchange Act) of any "Investment Adviser" (as defined under the Investment Advisers Act of 1940, as amended (the "Investment Advisers Act")), registered under the Investment Advisers Act, shall not, solely by virtue of ownership of such Voting Securities, cause such Person to be deemed to be an "Affiliate" or "Associate" of such Investment Adviser nor shall such Investment Adviser be deemed to be an "Affiliate" or "Associate" of such Person.

2. This Amendment shall be governed by and construed in accordance with the laws of the State of Delaware and for all purposes shall be governed by and construed in accordance with all laws of such State applicable to contracts to be made and performed entirely within such State.

3. This Amendment may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute one and the same instrument.

4. In all respects not inconsistent with the terms and provisions of this Amendment, the Rights Agreement is hereby ratified, adopted, approved and confirmed. In executing and delivering this Amendment, the Rights Agent shall be entitled to all the privileges and immunities afforded to the Rights Agent under the terms and conditions of the Rights Agreement.

5. If any term, provision, covenant or restriction of this Amendment is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Amendment, and of the Rights Agreement, shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

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

"COMPANY"

AUTODESK, INC.

By: /s/ MARCIA K. STERLING

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Marcia K. Sterling  
Vice President and General Counsel

"RIGHTS AGENT"

HARRIS TRUST AND SAVINGS BANK

By: /s/ CHARLES V. ZADE

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Charles V. Zade  
Vice President

## AUTODESK, INC.

## 1998 EMPLOYEE QUALIFIED STOCK PURCHASE PLAN

The following constitute the provisions of the 1998 Employee Qualified Stock Purchase Plan (herein called the "Plan") of Autodesk, Inc. (herein called the "Company").

1. Purpose. The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company through accumulated payroll deductions. It is the intention of the Company to have the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986. The provisions of the Plan shall, accordingly, be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

2. Definitions.

(a) "Board" shall mean the Board of Directors of the Company.

(b) "Code" shall mean the Internal Revenue Code of 1986.

(c) "Common Stock" shall mean the Common Stock, par value \$0.01 per share, of the Company.

(d) "Company" shall mean Autodesk, Inc., a Delaware corporation.

(e) "Compensation" shall mean all regular straight time earnings, payments for overtime, shift premium and commissions, but exclusive of any incentive compensation, incentive payments, bonuses, or other compensation.

(f) "Continuous Status as an Employee" shall mean the absence of any interruption or termination of service as an Employee. Continuous Status as an Employee shall not be considered interrupted in the case of a leave of absence agreed to in writing by the Company, provided that such leave is for a period of not more than 90 days or reemployment upon the expiration of such leave is guaranteed by contract or statute.

(g) "Designated Subsidiaries" shall mean the Subsidiaries which have been designated by the Board from time to time in its sole discretion as eligible to participate in the Plan.

(h) "Employee" shall mean any person, including an officer, who is customarily employed for at least twenty (20) hours per week and more than five (5) months in a calendar year by the Company or one of its Designated Subsidiaries.

(i) "Exercise Date" shall mean the date one day prior to the date six (6) months, twelve (12) months, eighteen (18) months or twenty-four (24) months after the Offering Date of each Offering Period.

(j) "Exercise Period" shall mean a period commencing on an Offering Date or on the day after an Exercise Date and terminating one day prior to the date six (6) months later.

(k) "Offering Period" shall mean a period of twenty-four (24) months consisting of four (4) six-month Exercise Periods during which options granted pursuant to the Plan may be exercised.

(l) "Offering Date" shall mean the first day of each Offering Period of the Plan.

(m) "Plan" shall mean this 1998 Employee Qualified Stock Purchase Plan.

(n) "Subsidiary" shall mean a corporation, domestic or foreign, of which not less than 50% of the voting shares are held by the Company or a Subsidiary, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.

### 3. Eligibility.

(a) Any Employee as defined in paragraph 2 who shall be employed by the Company on the Offering Date shall be eligible to participate in the Plan, subject to limitations imposed by Section 423(b) of the Code.

(b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) if, immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own stock and/or hold outstanding options to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any subsidiary of the Company, or (ii) which permits such Employee's rights to purchase stock under all employee stock purchase plans of the Company and its subsidiaries to accrue at a rate which exceeds Twenty-Five Thousand Dollars (\$25,000) of fair market value of such stock (determined at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4. Offering Periods. The Plan shall be implemented by twenty-four (24) month Offering Periods beginning every six (6) months, until terminated in accordance with Section 20 hereof; provided that, the first Offering Period shall begin on the first business day after the Company's Special Meeting on March 31, 1998. The Board of Directors of the Company shall have the power to change the duration of offering periods with respect to future offerings without stockholder approval

if such change is announced at least fifteen (15) days prior to the scheduled beginning of the first offering period to be affected.

5. Participation.

(a) An eligible Employee may become a participant in the Plan by completing a subscription agreement authorizing payroll deductions on the form provided by the Company and filing it with the Company's payroll office at least one week prior to the applicable Offering Date, unless a later time for filing the subscription agreement is set by the Board for all eligible Employees with respect to a given offering.

(b) Payroll deductions for a participant shall continue at the rate specified in the subscription agreement throughout the Offering Period with automatic re-enrollment for the Offering Period which commences the day after the Exercise Date at the same rate specified in the original subscription agreement, subject to any change in subscription rate made pursuant to Section 6(c) or (d), unless sooner terminated by the participant as provided in Section 10.

6. Payroll Deductions.

(a) At the time a participant files his or her subscription agreement, such participant shall elect to have payroll deductions made on each payday during the offering period in an amount not exceeding fifteen percent (15%) of his or her Compensation on each payroll date. The aggregate of such payroll deductions during any offering period shall not exceed fifteen percent (15%) of his or her aggregate Compensation during said offering period.

(b) All payroll deductions made by a participant shall be credited to his or her account under the Plan. A participant may not make any additional payments into such account.

(c) A participant may discontinue his or her participation in the Plan as provided in Section 11, or may decrease, but not increase, the rate of his or her payroll deductions during the Offering Period by completing or filing with the Company a form provided by the Company notifying the payroll office of such withdrawal or reduction of withholding rate. The change in rate shall be effective as of the next pay date following receipt of the form or at such other time as the Company and the participant may agree.

(d) A participant may increase or decrease the rate of withholding for a new Offering Period so long as such election is made prior to the commencement of such Offering Period (subject to the limitations set forth in Section 6(a)).

7. Grant of Option.

(a) On the Offering Date of each Offering Period, each eligible Employee participating in the Plan shall be granted an option to purchase on each Exercise Date during such Offering Period (at the per share option price) up to a number of shares of the Company's Common

Stock determined by dividing such Employee's payroll deductions to be accumulated prior to such Exercise Date by the lower of (i) eighty-five percent (85%) of the fair market value of a share of the Company's Common Stock on the Offering Date or (ii) eighty-five percent (85%) of the fair market value of a share of the Company's Common Stock on the Exercise Date; provided that in no event shall an Employee be permitted to purchase during an Offering Period a number of shares in excess of a number determined by dividing \$50,000 by the fair market value of a share of the Company's Common Stock on the Offering Date, subject to the limitations set forth in Sections 3(b) and 13 hereof. Fair market value of a share of the Company's Common Stock shall be determined as provided in Section 7(b) herein.

(b) The option price per share of the shares offered in a given Exercise Period shall be the lower of: (i) 85% of the fair market value of a share of the Common Stock of the Company on the Offering Date; or (ii) 85% of the fair market value of a share of the Common Stock of the Company on the Exercise Date. The fair market value of the Company's Common Stock on a given date shall be the closing price as quoted on the Nasdaq Stock Market, Inc.'s National Market or, if traded on a securities exchange, the closing price on such exchange.

8. Exercise of Option. Unless a participant withdraws from the Plan as provided in Section 11, his or her option for the purchase of shares will be exercised automatically on each Exercise Date of the Offering Period, and the maximum number of full shares subject to option will be purchased for him or her at the applicable option price with the accumulated payroll deductions in his or her account. During his or her lifetime, a participant's option to purchase shares hereunder is exercisable only by him or her.

9. Delivery. As promptly as practicable after the Exercise Date of each offering, the Company shall arrange the delivery to each participant, as appropriate, of a certificate representing the shares purchased upon exercise of his or her option. Any cash remaining which is insufficient to purchase a full share of Common Stock at the termination of each Exercise Period shall be applied to such participant's account in the subsequent Exercise Period unless the participant requests withdrawal of such cash.

10. Automatic Transfer to Low Price Offering Period. In the event that the fair market value of the Company's Common Stock is lower on an Exercise Date than it was on the first Offering Date for that Offering Period, all Employees participating in the Plan on the Exercise Date shall be deemed to have withdrawn from the Offering Period immediately after the exercise of their option on such Exercise Date and to have enrolled as participants in a new Offering Period which begins on or about the day following such Exercise Date. A participant may elect to remain in the previous Offering Period by filing a written statement declaring such election with the Company prior to the time of the automatic change to the new Offering Period.

11. Withdrawal; Termination of Employment.

(a) A participant may withdraw all but not less than all the payroll deductions credited to his or her account under the Plan at any time prior to the Exercise Date of the Offering

Period by giving written notice to the Company. All of the participant's payroll deductions credited to his or her account will be paid to him or her at the next pay date after receipt of his or her notice of withdrawal and his or her option for the current period will be automatically terminated, and no further payroll deductions for the purchase of shares will be made during the Offering Period.

(b) Upon termination of the participant's Continuous Status as an Employee prior to the Exercise Date for any reason, including retirement or death, the payroll deductions credited to his or her account will be returned to the participant's or, in the case the of participant's death, to the person or persons entitled thereto under Section 15, and his or her option will be automatically terminated.

(c) A participant's withdrawal from an offering will not have any effect upon his or her eligibility to participate in a succeeding offering or in any similar plan which may hereafter be adopted by the Company.

12. Interest. No interest shall accrue on the payroll deductions of a participant in the Plan.

13. Stock.

(a) The maximum number of shares of the Company's Common Stock which shall be made available for sale under the Plan shall be 2,000,000 shares, plus an annual increase to be made on the last day of the immediately preceding fiscal year equal to the lesser of (i) 2,500,000 shares, (ii) 2% of the Issued Shares (as defined below) on such date or (iii) a lesser amount determined by the Board, subject to adjustment upon changes in capitalization of the Company as provided in Section 19 hereof. "Issued Shares" shall mean the number of shares of Common Stock of the Company outstanding on such date plus any shares reacquired by the Company during the fiscal year that ends on such date. If the total number of shares which would otherwise be subject to options granted pursuant to Section 7(a) hereof on the Exercise Date of an Offering Period exceeds the number of shares then available under the Plan (after deduction of all shares for which options have been exercised or are then outstanding), the Company shall make a pro rata allocation of the shares remaining available for option grant in as uniform a manner as shall be practicable and as it shall determine to be equitable. In such event, the Company shall give written notice of such reduction of the number of shares subject to the option to each Employee affected thereby and shall similarly reduce the rate of payroll deductions, if necessary.

(b) The participant will have no interest or voting right in shares covered by his or her option until such option has been exercised.

(c) Shares to be delivered to a participant under the Plan will be registered in the name of the participant or in the name of the participant and his or her spouse.

14. Administration. The Plan shall be administered by the Board of Directors of the Company or a committee appointed by the Board. The administration, interpretation or application

of the Plan by the Board or its committee shall be final, conclusive and binding upon all participants. Members of the Board who are eligible Employees are permitted to participate in the Plan, provided that:

(a) Members of the Board who are eligible to participate in the Plan may not vote on any matter affecting the administration of the Plan or the grant of any option pursuant to the Plan.

(b) If a Committee is established to administer the Plan, no member of the Board who is eligible to participate in the Plan may be a member of the Committee.

15. Designation of Beneficiary.

(a) A participant may file a written designation of a beneficiary who is to receive any shares and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to the end of the offering period but prior to delivery to such participant of such shares and cash. In addition, a participant may file a written designation of a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death prior to the Exercise Date of the offering period.

(b) Such designation of beneficiary may be changed by the participant at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

16. Transferability. Neither payroll deductions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in Section 15 hereof) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds in accordance with Section 11.

17. Use of Funds. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

18. Reports. Individual accounts will be maintained for each participant in the Plan. Statements of account will be given to participating Employees annually promptly following the Exercise Date, which statements will set forth the amounts of payroll deductions, the per share purchase price, the number of shares purchased and the remaining cash balance, if any.

19. Adjustments Upon Changes in Capitalization. Subject to any required action by the stockholders of the Company, the number of shares of Common Stock covered by each option under the Plan which has not yet been exercised and the number of shares of Common Stock which have been authorized for issuance under the Plan but have not yet been placed under option (collectively, the "Reserves"), as well as the price per share of Common Stock covered by each option under the Plan which has not yet been exercised, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split or the payment of a stock dividend (but only on the Common Stock) or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an option.

In the event of the proposed dissolution or liquidation of the Company, the offering period will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Board. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, each option under the Plan shall be assumed or an equivalent option shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless the Board determines, in the exercise of its sole discretion and in lieu of such assumption or substitution, that the participant shall have the right to exercise the option as to all of the optioned stock, including shares as to which the option would not otherwise be exercisable. If the Board makes an option fully exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Board shall notify the participant that the option shall be fully exercisable for a period of thirty (30) days from the date of such notice, and the option will terminate upon the expiration of such period.

The Board may, if it so determines in the exercise of its sole discretion, also make provision for adjusting the Reserves, as well as the price per share of Common Stock covered by each outstanding option, in the event that the Company effects one or more reorganizations, recapitalizations, rights offerings or other increases or reductions of shares of its outstanding Common Stock.

20. Amendment or Termination. The Board of Directors of the Company may at any time terminate or amend the Plan. No such termination can affect options previously granted, nor may an amendment make any change in any option theretofore granted which adversely affects the rights of any participant. In addition, to the extent necessary to comply with Rule 16b-3 under the Act or under Section 423 of the Code (or any successor rule or provision or any other applicable law or regulation), the Company shall obtain stockholder approval in such a manner and to such a degree as so required.

21. Notices. All notices or other communications by a participant to the Company under

or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

22. Stockholder Approval.

(a) Continuance of the Plan shall be subject to approval by the stockholders of the Company within twelve (12) months before or after the date the Plan is adopted. If such stockholder approval is obtained at a duly held stockholders' meeting, it must be obtained by the affirmative vote of the holders of a majority of the outstanding shares of the Company, or if such stockholder approval is obtained by written consent, it must be obtained by the unanimous written consent of all stockholders of the Company; provided, however, that approval at a meeting or by written consent may be obtained by a lesser degree of stockholder approval if the Board determines, in its discretion after consultation with the Company's legal counsel, that such a lesser degree of stockholder approval will comply with all applicable laws and will not adversely affect the qualification of the Plan under Section 423 of the Code.

(b) If and in the event that the Company registers any class of equity securities pursuant to Section 12 of the Exchange Act, any required approval of the stockholders of the Company obtained after such registration shall be solicited substantially in accordance with Section 14(a) of the Exchange Act and the rules and regulations promulgated thereunder.

(c) If any required approval by the stockholders of the Plan itself or of any amendment thereto is solicited at any time otherwise than in the manner described in paragraph 21(b) hereof, then the Company shall, at or prior to the first annual meeting of stockholders held subsequent to the later of (1) the first registration of any class of equity securities of the Company under Section 12 of the Exchange Act or (2) the granting of an option hereunder to an officer or director after such registration, do the following:

(i) furnish in writing to the holders entitled to vote for the Plan substantially the same information which would be required (if proxies to be voted with respect to approval or disapproval of the Plan or amendment were then being solicited) by the rules and regulations in effect under Section 14(a) of the Exchange Act at the time such information is furnished; and

(ii) file with, or mail for filing to, the Securities and Exchange Commission four copies of the written information referred to in subsection (i) hereof not later than the date on which such information is first sent or given to stockholders.

23. Conditions Upon Issuance of Shares. Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, and the requirements of any stock

exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

24. Term of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board of Directors or its approval by the stockholders of the Company as described in paragraph 22. It shall continue in effect for a term of twenty (20) years unless sooner terminated under paragraph 20.

AUTODESK, INC.

EMPLOYEE QUALIFIED STOCK PURCHASE PLAN  
SUBSCRIPTION AGREEMENT

\_\_\_\_ Original Application  
\_\_\_\_ Change in Payroll Deduction Rate  
\_\_\_\_ Change of Beneficiary(ies)

Date: \_\_\_\_\_

1. \_\_\_\_\_ hereby elects to participate in the Autodesk, Inc. Employee Qualified Stock Purchase Plan (the "Stock Purchase Plan") and subscribes to purchase shares of the Company's Common Stock, without par value, in accordance with this Subscription Agreement and the Stock Purchase Plan.
2. I hereby authorize payroll deductions from each paycheck in the amount of \_\_\_\_\_% (maximum 15%) of my Compensation on each payday during the Offering Period in accordance with the Stock Purchase Plan. Such deductions are to continue for succeeding Offering Periods until I give written instructions for a change in or termination of such deductions.
3. I understand that said payroll deductions shall be accumulated for the purchase of shares of Common Stock, without par value, at the applicable purchase price determined in accordance with the Stock Purchase Plan. I further understand that, except as otherwise set forth in the Stock Purchase Plan, shares will be purchased for me automatically on each Exercise Date of the offering period unless I otherwise withdraw from the Stock Purchase Plan by giving written notice to the Company for such purpose.
4. I have received a copy of the complete "Autodesk, Inc. Employee Qualified Stock Purchase Plan." I understand that my participation in the Stock Purchase Plan is in all respects subject to the terms of the Plan. I have been provided with a prospectus describing the Stock Purchase Plan. I understand that I may withdraw from the Stock Purchase Plan and have payroll deductions refunded (without interest) on the next payroll date following notice of withdrawal at any time during the Offering Period.
5. Shares purchased for me under the Stock Purchase Plan should be issued in the name(s) of:  
\_\_\_\_\_.
6. I understand that if I dispose of any shares received by me pursuant to the Stock Purchase Plan within 2 years after the Offering Date (the first day of the offering period during which I purchased such shares) or within one year after the date on which such shares were transferred to me, I will be treated for federal income tax purposes as having received ordinary income at the time of such disposition in an amount equal to the excess of the fair market value of the shares at the time such shares were transferred to me over the price which

I paid for the shares, and that I may be required to provide income tax withholding on that amount. I hereby agree to notify the Company in writing within 30 days after the date of any such the expiration of the two-year and one-year holding periods, I understand that I will be treated for federal income tax purposes as having received income only at the time of such disposition, and that such income will be treated as ordinary income only to the extent of an amount equal to the lesser of (1) the excess of the fair market value of the shares at the time of such disposition over the purchase price which I paid for the shares under the option, or (2) the excess of the fair market value of the shares over the option price, measured as if the option had been exercised on the Offering Date. The remainder of the gain or loss, if any, recognized on such disposition will be treated as capital gain or loss. The federal income tax treatment of ordinary income and capital gain and loss is described in the Company's prospectus relating to the Stock Purchase Plan.

7. I hereby agree to be bound by the terms of the Stock Purchase Plan. The effectiveness of this Subscription Agreement is dependent upon my eligibility to participate in the Stock Purchase Plan.

8. In the event of my death, I hereby designate the following as my beneficiary(ies) to receive all payments and shares due me under the Stock Purchase Plan:

NAME: (Please print) \_\_\_\_\_  
(First) (Middle) (Last)

Relationship \_\_\_\_\_  
(Address)

NAME: (Please print) \_\_\_\_\_  
(First) (Middle) (Last)

Relationship \_\_\_\_\_  
(Address)

Employee's Social Security Number: \_\_\_\_\_

Employee's Address:\* \_\_\_\_\_

I UNDERSTAND THAT THIS SUBSCRIPTION AGREEMENT SHALL REMAIN IN EFFECT THROUGHOUT SUCCESSIVE OFFERING PERIODS UNLESS TERMINATED BY ME.

Dated: \_\_\_\_\_  
Signature of Employee

- - - - -  
\* It is the participant's responsibility to notify the Company's stock administrator in the event of a change of address.

## AUTODESK, INC.

## 1990 DIRECTORS' OPTION PLAN

## 1. Purposes of the Plan. The purposes of this Directors' Option Plan

are to attract and retain highly skilled individuals as Directors of the Company, to provide additional incentive to the Outside Directors of the Company to serve as Directors, and to encourage their continued service on the Board.

All options granted hereunder shall be "non-statutory stock options."

## 2. Definitions. As used herein, the following definitions shall apply:

(a) "Board" means the Board of Directors of the Company.

(b) "Code" means the Internal Revenue Code of 1986, as amended.

(c) "Common Stock" means the Common Stock of the Company, par value \$0.01 per share.

(d) "Company" means Autodesk, Inc., a Delaware corporation.

(e) "Director" means a member of the Board.

(f) "Employee" means any person, including officers and

Directors, employed by the Company or any Parent or Subsidiary of the Company. The payment of a Director's fee or consulting fee by the Company shall not be sufficient in and of itself to constitute "employment" by the Company unless the Director and the Company agree that, as a result of payment of such fees in connection with services rendered, such Director should not be considered an Outside Director.

(g) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(h) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or national market system, including without limitation the Nasdaq National Market, the Fair Market Value of a Share of Common Stock shall be the closing sale price for such stock (or the closing bid, if no sales were reported), as quoted on such system or exchange (or, if more than one, on the exchange with the greatest volume of trading in the Company's Common Stock) on the day of determination, as reported in The Wall Street Journal or such other source as the Board deems reliable;

As amended by the Board of Directors on December 12, 1997.

(ii) If the Common Stock is quoted on Nasdaq (but not on the National Market) or regularly quoted by a recognized securities dealer, but selling prices are not reported, the Fair Market Value of a Share of Common Stock shall be the mean between the high and low asked prices for the Common Stock on the date of determination, as reported in The Wall Street Journal or such other source as the Board deems reliable, or;

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Board.

(i) "Option" means an option to purchase Common Stock granted pursuant to the Plan.

(j) "Optioned Stock" means the Common Stock subject to an Option.

(k) "Optionee" means an Outside Director who receives an Option.

(l) "Outside Director" means a Director who is not an Employee.

(m) "Plan" means this 1990 Directors' Option Plan.

(n) "Purchaser" means an Outside Director who purchases Restricted Stock.

(o) "Restricted Stock" means Shares granted to and purchased by Outside Directors in accordance with Section 4(c) of this Plan.

(p) "Restricted Stock Award" means the Company's grant of Restricted Stock pursuant to Section 4(c) of the Plan.

(q) "Share" means a share of the Common Stock, as adjusted in accordance with Section 11 of the Plan.

### 3. Stock Subject to the Plan. Subject to the provisions of Section 11

of the Plan, the maximum aggregate number of Shares which may be optioned and sold under the Plan is 440,000 Shares (the "Pool") of Common Stock. The Shares may be authorized, but unissued, or reacquired Common Stock.

If an Option expires or becomes unexercisable without having been exercised in full, the unpurchased Shares which were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated). If Shares are forfeited to the Company pursuant to a Restricted Stock agreement, such Shares shall be returned to the Plan and shall become available for reissuance under the Plan, unless the Plan shall have been terminated. However, such Shares shall not return to the Plan if the persons to whom they were originally issued receive the benefits of ownership of such Shares (other than voting), as such concept is

As amended by the Board of Directors on December 12, 1997.

interpreted from time to time by the Securities and Exchange Commission in the context of Rule 16b-3.

4. Administration of and Grants under the Plan.  
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(a) Administration. Except as otherwise required herein, the Plan  
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shall be administered by the Board. All grants of Options and Restricted Stock to Outside Directors under this Plan shall be automatic and nondiscretionary and shall be made strictly in accordance with the following provisions:

(b) Option Grants.  
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(i) No person shall have any discretion to select which outside Directors shall be granted Options or to determine the number of Shares to be covered by Options granted to Outside Directors.

(ii) Each Outside Director who joins the Board on or after June 30, 1995 shall be automatically granted an Option to purchase 20,000 Shares (the "Initial Option") upon the date of the first meeting of the Board at which such person first serves as a Director (which shall be (i) in the case of a director elected by the stockholders of the Company, the first meeting of the Board of Directors after the meeting of stockholders at which such director was elected or (ii) in the case of a director appointed by the Board to fill a vacancy, the meeting of the Board at which such director is appointed); provided, however, that no option shall become exercisable under the Plan until stockholder approval of the Plan has been obtained in accordance with Section 16 hereof.

(iii) Effective as of the annual stockholder meeting to be held June 27, 1996 and on the date of each subsequent annual stockholder meeting during the term of this Plan, each Outside Director shall automatically receive an additional option to purchase 10,000 Shares (the "Annual Option"), provided that (1) the Annual Option shall be granted only to an outside Director who has served on the Board for at least six full months prior to the date of grant and (2) the grant of an Annual option shall be subject to the person's continued service as an outside Director.

(iv) The terms of each Option granted hereunder shall be as follows:

(1) Each Option shall terminate, if not previously exercised or otherwise terminated, on a date ten (10) years after the date of grant.

(2) Each Option shall be exercisable only while the Outside Director remains a Director of the Company, except as set forth in Section 8 hereof.

(3) The exercise price per Share of each Option shall be 100% of the Fair Market Value per Share on the date of grant of the Option.

(4) Each Option shall become exercisable in installments cumulatively as to 34%, 33% and 33%, respectively, of the Optioned Stock on each of the three (3) succeeding years on the anniversary of such Option's date of grant, for a total vesting period of approximately three (3) years, provided that the Director continues to serve on the Board on such dates.

(v) In the event that any Option granted under the Plan would cause the number of Shares subject to outstanding Options plus the number of Shares previously purchased upon exercise of Options to exceed the Pool, then each such automatic grant shall be for that number of Shares determined by dividing the total number of Shares remaining available for grant by the number of Outside Directors on the automatic grant date. No further grants shall be made until such time, if any, as additional Shares become available for grant under the Plan through action of the stockholders to increase the number of Shares which may be issued under the Plan or through cancellation or expiration of Options previously granted hereunder.

(c) Restricted Stock Awards.  
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(i) No person shall have any discretion to select which Outside Directors shall receive Restricted Stock Awards or to determine the number of Shares to be covered by Restricted Stock awarded to Outside Directors; provided, however, that nothing in this Plan shall be construed to prevent an Outside Director from declining to receive a Restricted Stock Award under this Plan.

(ii) Effective as of the annual stockholder meeting to be held June 27, 1996 and on the date of each subsequent annual stockholder meeting during the term of this Plan, each Outside Director shall automatically receive a Restricted Stock Award for that number of Shares determined by dividing (1) the product of (a) fifty percent (50%) of the cash value of his or her annual retainer as a Director multiplied by (b) 1.2, by (2) the Fair Market Value of a Share on that date, rounded to the nearest whole Share, provided that on the date of grant of any such Restricted Stock Award such person is an Outside Director; and provided further that sufficient Shares are available under the Plan for the grant of such Restricted Stock Award.

(iii) Effective as of the annual stockholder meeting to be held in 1997 and on the date of each subsequent annual meeting during the term of this Plan, each Outside Director may elect to receive any or all of the remaining cash balance of his or her annual retainer as a Director in the form of a Restricted Stock Award by making an election (the "Election"). The Election must be in writing and delivered to the Secretary of the Company at least six (6) months before the next annual stockholder meeting. Any Election made by an Outside Director pursuant to this subsection 4(c)(iii) shall be irrevocable. Effective as of the annual stockholder meeting next following an Election, the Outside Director shall receive a Restricted Stock Award for that number of Shares determined by dividing (1) the product of (a) the amount of his or her annual retainer as a Director covered by the Election, multiplied by (b) 1.2, by (2) the Fair Market Value of a Share on that date, rounded to the nearest whole Share, provided that on the

date of grant of any such Restricted Stock Award such person is an Outside Director; and provided further that sufficient Shares are available under the Plan for the grant of such Restricted Stock Award.

(iv) The terms of a Restricted Stock Award granted hereunder shall be as follows:

(1) the purchase price shall be \$.01 per Share (the par value of the Company's Common Stock); and

(2) Subject to Sections 9(d) and 11(c), Restricted Stock shall vest on the date of the following year's annual stockholder meeting, provided that the Purchaser is an Outside Director on such date.

(d) Powers of the Board. Subject to the provisions and

restrictions of the Plan, the Board shall have the authority, in its discretion: (i) to determine, upon review of relevant information and in accordance with Section 2(h) of the Plan, the Fair Market Value of the Common Stock; (ii) to interpret the Plan; (iii) to prescribe, amend and rescind rules and regulations relating to the Plan; (iv) to authorize any person to execute on behalf of the Company any instrument required to effectuate the grant of an Option or Restricted Stock Award previously granted hereunder; and (v) to make all other determinations deemed necessary or advisable for the administration of the Plan.

(e) Effect of Board's Decision. All decisions, determinations

and interpretations of the Board shall be final.

5. Eligibility. Options and Restricted Stock Awards may be

granted only to Outside Directors. All Options shall be automatically granted in accordance with the terms set forth in Section 4(b) and all Restricted Stock Awards shall be automatically granted in accordance with the terms set forth in Section 4(c)

The Plan shall not confer upon any Optionee or Purchaser any right with respect to continuation of service as a Director or nomination to serve as a Director, nor shall it interfere in any way with any rights which the Director or the Company may have to terminate his or her directorship at any time.

6. Term of Plan. The Plan shall become effective upon the

earlier to occur of its adoption by the Board or its approval by the stockholders of the Company as described in Section 17 of the Plan. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 12 of the Plan.

7. Option Exercise Price and Consideration.

(a) Exercise Price. The per Share exercise price for Optioned

Stock shall be

100% of the Fair Market Value per Share on the date of grant of the Option.

(b) Form of Consideration. The consideration to be paid for

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the Shares to be issued upon exercise of an Option may consist of (i) cash, (ii) check, or (iii) other shares of the Company's Common Stock which, in the case of Shares acquired upon exercise of an Option, either have been owned by the Optionee for more than six (6) months on the date of surrender or were not acquired, directly or indirectly, from the Company, and have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised.

8. Exercise of Option.

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(a) Procedure for Exercise; Rights as a Stockholder. Any

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Option granted hereunder shall be exercisable at such times as are set forth in Section 4(b) hereof.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the option is exercised has been received by the Company. Full payment may consist of any consideration and method of payment allowable under Section 7(b) of the Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the option. A share certificate for the number of Shares so acquired shall be issued to the Optionee as soon as practicable after exercise of the option. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 11 of the Plan.

Except as otherwise provided in Section 3, exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of the Plan and for sale under the option, by the number of Shares as to which the option is exercised.

(b) Rule 16b-3. Options granted to Outside Directors must

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comply with the applicable provisions of Rule 16b-3 promulgated under the Exchange Act or any successor thereto and shall contain such additional conditions or restrictions as may be required thereunder to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

(c) Termination of Status as a Director. If an Outside

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Director ceases to serve as a Director, he may, but only within seven (7) months after the date he ceases to be a Director of the Company, exercise his Option to the extent that he was entitled to exercise it at the date of

such termination. Notwithstanding the foregoing, in no event may the Option be exercised after its term has expired. To the extent that the Director was not entitled to exercise an Option at the date of such termination, or if he does not exercise such Option (which he was entitled to exercise) within the time specified herein, the Option shall terminate.

(d) Disability of Optionee. Notwithstanding the provisions of  
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Section 8(c) above, in the event an Optionee is unable to continue his service as a Director as a result of his total and permanent disability (as defined in Section 22(e)(3) of the Code), he may, but only within twelve (12) months from the date of termination, exercise his Option to the extent he was entitled to exercise it at the date of such termination. Notwithstanding the foregoing, in no event may the Option be exercised after its term has expired. To the extent that he was not entitled to exercise the Option at the date of termination, or if he does not exercise such Option (which he was entitled to exercise) within the time specified herein, the Option shall terminate.

(e) Death of Optionee. In the event of the death of an Optionee  
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during the term of an Option, the Option shall become fully exercisable, including as to Shares for which it would not otherwise be exercisable and may be exercised, at any time within twelve (12) months following the date of death, by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance. Notwithstanding the foregoing, in no event may the Option be exercised after its term has expired.

9. Restricted Stock.  
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(a) Procedure for Purchase. Following a Restricted Stock Award  
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in accordance with Section 4(c), the Board shall notify the offeree in writing of the terms, conditions and restrictions relating to the offer, and the offeree shall have ninety (90) days following receipt of such notice within which to accept such offer. The offer shall be accepted by execution of a Restricted Stock purchase agreement in such form as the Board shall approve.

(b) Rights as a Stockholder. Until the issuance (as evidenced  
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by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing Restricted Stock, no right to vote or to receive dividends or any other rights as a stockholder shall exist with respect to purchased Shares. A share certificate for the number of Shares of Restricted Stock purchased shall be issued to the Purchaser as soon as practicable after purchase of the Restricted Stock. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 11 of the Plan.

(c) Termination of Continuous Status as a Director. In the  
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event a Purchaser's Continuous Status as a Director terminates prior to vesting (other than by reason of the Purchaser's death), Restricted Stock shall be forfeited by the Purchaser without any consideration therefor.

(d) Death. In the event a Purchaser's Continuous Status as a  
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Director

terminates by reason of the Purchaser's death, the Purchaser's Restricted Stock shall become fully vested as of the date of death.

(e) Shares Available Under the Plan. Except as otherwise

provided in Section 3 hereof, a purchase of Restricted Stock as provided hereunder shall result in a decrease in the number of Shares that thereafter shall be available under the Plan, by the number of Shares of Restricted Stock purchased.

(f) Rule 16b-3. Restricted Stock Awards to Outside Directors

must comply with the applicable provisions of Rule 16b-3 of the Exchange Act and shall contain such additional conditions or restrictions as may be required thereunder to qualify Plan transactions, and other transactions by Outside Directors that could be matched with Plan transactions, for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

10. Non-Transferability of Options and Restricted Stock Awards. Options

and Restricted Stock Awards may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution. Options may be exercised, during the lifetime of the Optionee, only by the Optionee.

11. Adjustments Upon Changes in Capitalization, Dissolution, Merger,

Asset Sale or Change of Control.

(a) Changes in Capitalization. Subject to any required action

by the stockholders of the Company, the number of Shares covered by each outstanding Option and Restricted Stock Award, the number of Shares which have been authorized for issuance under the Plan but as to which no Options or Restricted Stock Awards have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option or repurchase or forfeiture of Restricted Stock, as well as the price per Share covered by each such outstanding Option, as applicable, and the number of Shares issuable pursuant to the automatic grant provisions of Section 4 hereof shall be proportionately adjusted for any increase or decrease in the number of issued Shares resulting from a stock split, spin off, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to an Option or Restricted Stock Award.

(b) Dissolution or Liquidation. In the event of a proposed

dissolution or liquidation of the Company, Options and Restricted Stock shall become fully vested and, in the case of Options, fully exercisable, including as to Shares as to which it would not otherwise be exercisable. To the extent an Option or Restricted Stock Award remains unexercised at the time of the dissolution or liquidation, the Option or Restricted Stock Award shall terminate.

(c) Merger or Asset Sale. In the event of a merger of the Company

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with or into another corporation or the sale of substantially all of the assets of the Company, Restricted Stock shall fully vest and outstanding Options may be assumed or equivalent options may be substituted by the successor corporation or a parent or subsidiary thereof (the "Successor Corporation"). If an Option is assumed or substituted for, the Option or equivalent option shall continue to be exercisable as provided in Section 4 hereof for so long as the Optionee serves as a Director or a director of the Successor Corporation. Following such assumption or substitution, if the Optionee's status as a Director or director of the Successor Corporation, as applicable, is terminated other than upon a voluntary resignation by the Optionee, the Option or option shall become fully exercisable, including as to Shares for which it would not otherwise be exercisable. Thereafter, the Option or option shall remain exercisable in accordance with Sections 8(c) through (e) above.

If the Successor Corporation does not assume an outstanding Option or substitute for it an equivalent option, the Option shall become fully vested and exercisable, including as to Shares for which it would not otherwise be exercisable. In such event the Board shall notify the Optionee that the Option shall be fully exercisable for a period of thirty (30) days from the date of such notice, and upon the expiration of such period the Option shall terminate.

For the purposes of this Section 11(c), an Option shall be considered assumed if, following the merger or sale of assets, the Option confers the right to purchase or receive, for each Share of Optioned Stock subject to the Option immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) received in the merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares).

12. Amendment and Termination of the Plan.

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(a) Amendment and Termination. The Board may at any time

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amend, alter, suspend, or discontinue the Plan, but no amendment, alteration, suspension, or discontinuation shall be made which would impair the rights of any Optionee or Purchaser under any grant theretofore made, without his or her consent. In addition, to the extent necessary and desirable to comply with Rule 16b-3 under the Exchange Act (or any other applicable law or regulation), the Company shall obtain stockholder approval of any Plan amendment in such a manner and to such a degree as required. Notwithstanding the foregoing, the provisions set forth in Sections 4(b) and 4(c) of this Plan (and any additional Sections of this Plan as required by Rule 16b-3) shall not be amended more than once every six months, other than to comport with changes in the Internal Revenue Code, the Employee Retirement Income Security Act, as amended, or the rules thereunder.

(b) Effect of Amendment or Termination. Any such amendment or

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termination of the Plan shall not affect Options or Restricted Stock already granted and such Options and Restricted Stock shall remain in full force and effect as if this Plan had not been

amended or terminated.

13. Time of Granting Options or Restricted Stock Awards. The date of

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grant of an Option or Restricted Stock Award shall, for all purposes, be the date determined in accordance with Section 4 hereof. Notice of the determination shall be given to each Outside Director to whom an Option or Restricted Stock Award is so granted within a reasonable time after the date of such grant.

14. Conditions Upon Issuance of Shares. Shares shall not be issued

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pursuant to the exercise of an Option or Restricted Stock Award unless the exercise of such Option or Restricted Stock Award and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, state securities laws, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an Option or Restricted Stock Award, the Company may require the person exercising such Option or Restricted Stock Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares, if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned relevant provisions of law.

Inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

15. Reservation of Shares. The Company, during the term of this Plan,

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will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

16. Agreements. Options and Restricted Stock Awards shall be evidenced

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by written option agreements in such form as the Board shall approve.

17. Stockholder Approval. Continuance of the Plan shall be subject to

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approval by the stockholders of the Company at or prior to the first annual meeting of stockholders held subsequent to the adoption of the Plan. Such stockholder approval shall be obtained in the degree and manner required under applicable state and federal law.

AUTODESK, INC.

1996 STOCK PLAN  
(AS AMENDED JANUARY 27, 1998)

1. Purposes of the Plan. The purposes of this Stock Plan are:

- . to attract and retain the best available personnel for positions of substantial responsibility,
- . to provide additional incentive to Employees and Consultants, and
- . to promote the success of the Company's business.

Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options, as determined by the Administrator at the time of grant. Stock Purchase Rights and Long-Term Performance Awards may also be granted under the Plan.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any of its Committees as shall be administering the Plan, in accordance with Section 4 of the Plan.

(b) "Applicable Laws" means the legal requirements relating to the administration of stock option plans under U. S. state corporate laws, U.S. federal and state securities laws, the Code and the applicable laws of any foreign country or jurisdiction where Options or Stock Purchase Rights will be or are being granted under the Plan.

(c) "Board" means the Board of Directors of the Company.

(d) "Code" means the Internal Revenue Code of 1986, as amended.

(e) "Committee" means a Committee appointed by the Board in accordance with Section 4 of the Plan.

(f) "Common Stock" means the Common Stock of the Company.

(g) "Company" means Autodesk, Inc., a Delaware corporation.

(h) "Consultant" means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services and who is compensated for such services. The term "Consultant" shall not include Directors who are paid only a director's fee by the Company or who are not compensated by the Company for their services as Directors.

(i) "Continuous Status as an Employee or Consultant" means that the

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employment or consulting relationship with the Company, its Parent, or any  
Subsidiary, is not interrupted or terminated. Continuous Status as an Employee  
or Consultant shall not be considered interrupted in the case of (i) any leave  
of absence approved by the Company or (ii) transfers between locations of the  
Company or between the Company, its Parent, any Subsidiary, or any successor. A  
leave of absence approved by the Company shall include sick leave, military  
leave, or any other personal leave approved by an authorized representative of  
the Company. For purposes of Incentive Stock Options, no such leave may exceed  
ninety days, unless reemployment upon expiration of such leave is guaranteed by  
statute or contract. If reemployment upon expiration of a leave of absence  
approved by the Company is not so guaranteed, on the 181st day of such leave any  
Incentive Stock Option held by the Optionee shall cease to be treated as an  
Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory  
Stock Option.

(j) "Director" means a member of the Board.

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(k) "Disability" means total and permanent disability as defined in  
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Section 22(e)(3) of the Code.

(l) "Employee" means any person, including Officers and Directors,

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employed by the Company or any Parent or Subsidiary of the Company. Neither  
service as a Director nor payment of a director's fee by the Company shall be  
sufficient to constitute "employment" by the Company.

(m) "Exchange Act" means the Securities Exchange Act of 1934, as

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amended.

(n) "Fair Market Value" means, as of any date, the value of Common Stock

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determined as follows:

(i) If the Common Stock is listed on any established stock  
exchange or national market system, including without limitation The Nasdaq  
National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its  
Fair Market Value shall be the closing sales price for such stock (or the  
closing bid, if no sales were reported) as quoted on such exchange or system for  
the date of such determination, as reported in The Wall Street Journal or such  
other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized  
securities dealer but selling prices are not reported, the Fair Market Value of  
a Share of Common Stock shall be the mean between the high bid and low asked  
prices for the Common Stock on the date of determination, as reported in The  
Wall Street Journal or such other source as the Administrator deems reliable;

(iii) In the absence of an established market for the Common Stock,  
the Fair Market Value shall be determined in good faith by the Administrator.

(o) "Incentive Stock Option" means an Option intended to qualify as an  
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incentive stock option within the meaning of Section 422 of the Code and the  
regulations promulgated thereunder.

(p) "Insiders" means individuals subject to Section 16 of the Exchange  
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Act.

(q) "Long-Term Performance Award" means an award of cash or stock  
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pursuant to Section 12 of the Plan.

(r) "Nonstatutory Stock Option" means an Option not intended to qualify  
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as an Incentive Stock Option.

(s) "Notice of Grant" means a written or electronic notice evidencing  
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certain terms and conditions of an individual Option, Stock Purchase Right or  
Long-Term Performance Award grant. The Notice of Grant is part of the Option  
Agreement.

(t) "Officer" means a person who is an officer of the Company within the  
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meaning of Section 16 of the Exchange Act and the rules and regulations  
promulgated thereunder.

(u) "Option" means a stock option granted pursuant to the Plan.  
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(v) "Option Agreement" means a written or electronic agreement between  
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the Company and an Optionee evidencing the terms and conditions of an individual  
Option grant. The Option Agreement is subject to the terms and conditions of  
the Plan.

(w) "Optioned Stock" means the Common Stock subject to an Option, Stock  
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Purchase Right or Long-Term Performance Award.

(x) "Optionee" means an Employee or Consultant who holds an outstanding  
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Option, Stock Purchase Right or Long-Term Performance Award.

(y) "Parent" means a "parent corporation," whether now or hereafter  
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existing, as defined in Section 424(e) of the Code.

(z) "Plan" means this 1996 Stock Plan, as amended.  
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(aa) "Restricted Stock" means shares of Common Stock acquired pursuant  
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to a grant of Stock Purchase Rights under Section 11 below.

(bb) "Restricted Stock Purchase Agreement" means a written agreement  
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between the Company and the Optionee evidencing the terms and restrictions  
applying to stock purchased under a Stock Purchase Right. The Restricted Stock  
Purchase Agreement is subject to the terms and conditions of the Plan and the  
Notice of Grant.

(cc) "Rule 16b-3" means Rule 16b-3 of the Exchange Act or any successor  
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to Rule 16b-3, as in effect when discretion is being exercised with respect to  
the Plan.

(dd) "Section 16(b)" means Section 16(b) of the Securities Exchange Act  
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of 1934, as amended.

(ee) "Share" means a share of the Common Stock, as adjusted in  
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accordance with Section 14 of the Plan.

(ff) "Stock Purchase Right" means the right to purchase Common Stock  
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pursuant to Section 11 of the Plan, as evidenced by a Notice of Grant.

(gg) "Subsidiary" means a "subsidiary corporation", whether now or  
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hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan. Subject to the provisions of Section 14 of  
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the Plan, the maximum aggregate number of Shares which may be optioned and sold  
under the Plan is 3,500,000 shares, plus (a) an annual increase to be made on  
the last day of the immediately preceding fiscal year equal to the lesser of (i)  
500,000 Shares, (ii) 3.5% of the Issued Shares (as defined below) on such date  
or (iii) a lesser amount determined by the Board, (b) any Shares which have been  
reserved but unissued under the Company's 1987 Stock Option Plan ("1987 Plan")  
as of the date of stockholder approval of the original adoption of this Plan not  
to exceed 3,000,000 Shares, and (c) any Shares returned to the 1987 Plan as a  
result of termination of options under the 1987 Plan not to exceed 9,000,000  
Shares. "Issued Shares" shall mean the number of shares of Common Stock of the  
Company outstanding on such date plus any shares reacquired by the Company  
during the fiscal year that ends on such date.

If an Option, Stock Purchase Right or Long-Term Performance Award  
expires or becomes unexercisable without having been exercised in full, the  
unpurchased Shares which were subject thereto shall become available for future  
grant or sale under the Plan (unless the Plan has terminated); provided,  
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however, that Shares that have actually been issued under the Plan, whether upon  
exercise of an Option, Stock Purchase Right or Long-Term Performance Award,  
shall not be returned to the Plan and shall not become available for future  
distribution under the Plan, except that if Shares of Restricted Stock are  
repurchased by the Company at their original purchase price, and the original  
purchaser of such Shares did not receive any benefits of ownership of such  
Shares, such Shares shall become available for future grant under the Plan. For  
purposes of the preceding sentence, voting rights shall not be considered a  
benefit of Share ownership.

4. Administration of the Plan.

(a) Procedure.

(i) Multiple Administrative Bodies. If permitted by Rule 16b-3,

the Plan may be administered by different bodies with respect to Directors, Officers who are not Directors, and Employees who are neither Directors nor Officers.

(ii) Administration With Respect to Directors and Officers

Subject to Section 16(b). With respect to Option, Stock Purchase Right or

Long-Term Performance Award grants made to Employees who are also Officers or Directors subject to Section 16(b) of the Exchange Act, the Plan shall be administered by (A) the Board, if the Board may administer the Plan in a manner complying with the rules under Rule 16b-3 relating to the disinterested administration of employee benefit plans under which Section 16(b) exempt discretionary grants and awards of equity securities are to be made, or (B) a committee designated by the Board to administer the Plan, which committee shall be constituted to comply with the rules under Rule 16b-3 relating to the disinterested administration of employee benefit plans under which Section 16(b) exempt discretionary grants and awards of equity securities are to be made. Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of the Committee and appoint additional members, remove members (with or without cause) and substitute new members, fill vacancies (however caused), and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by the rules under Rule 16b-3 relating to the disinterested administration of employee benefit plans under which Section 16(b) exempt discretionary grants and awards of equity securities are to be made.

(iii) Administration With Respect to Other Persons. With

respect to Option, Stock Purchase Right or Long-Term Performance Award grants made to Employees or Consultants who are neither Directors nor Officers of the Company, the Plan shall be administered by (A) the Board or (B) a committee designated by the Board, which committee shall be constituted to satisfy Applicable Laws. Once appointed, such Committee shall serve in its designated capacity until otherwise directed by the Board. The Board may increase the size of the Committee and appoint additional members, remove members (with or without cause) and substitute new members, fill vacancies (however caused), and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the Plan,

and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator shall have the authority, in its discretion:

(i) to determine the Fair Market Value of the Common Stock, in accordance with Section 2(n) of the Plan;

(ii) to select the Consultants and Employees to whom Options, Stock Purchase Rights and Long-Term Performance Awards may be granted hereunder;

(iii) to determine whether and to what extent Options, Stock Purchase Rights and Long-Term Performance Awards or any combination thereof, are granted hereunder;

(iv) to determine the number of shares of Common Stock to be covered by each Option, Stock Purchase Right and Long-Term Performance Awards granted hereunder;

(v) to approve forms of agreement for use under the Plan;

(vi) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Options, Stock Purchase Rights or Long-Term Performance Awards may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Option, Stock Purchase Right or Long-Term Performance Awards or the shares of Common Stock relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine;

(vii) to construe and interpret the terms of the Plan and awards granted pursuant to the Plan;

(viii) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of qualifying for preferred tax treatment under foreign tax laws;

(ix) to modify or amend each Option, Stock Purchase Right or Long-Term Performance Awards (subject to Section 16(c) of the Plan), including the discretionary authority to extend the post-termination exercisability period of Options longer than is otherwise provided for in the Plan;

(x) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Option, Stock Purchase Right or Long-Term Performance Awards previously granted by the Administrator;

(xi) to determine the terms and restrictions applicable to Options, Stock Purchase Rights, Long-Term Performance Awards and any Restricted Stock; and

(xii) to make all other determinations deemed necessary or advisable for administering the Plan.

(c) Effect of Administrator's Decision. The Administrator's decisions, -----  
determinations and interpretations shall be final and binding on all Optionees and any other holders of Options, Stock Purchase Rights or Long-Term Performance Awards.

5. Eligibility. Nonstatutory Stock Options, Stock Purchase Rights and

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Long-Term Performance Awards may be granted to Employees and Consultants. Incentive Stock Options may be granted only to Employees. If otherwise eligible, an Employee or Consultant who has been granted an Option, Stock Purchase Right or Long-Term Performance Awards may be granted additional Options, Stock Purchase Rights or Long-Term Performance Awards.

6. Limitations.

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(a) Each Option shall be designated in the written option agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Optionee during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds \$100,000, such Options shall be treated as Nonstatutory Stock Options.

(b) Neither the Plan nor any Option, Stock Purchase Right or Long-Term Performance Award shall confer upon an Optionee any right with respect to continuing the Optionee's employment or consulting relationship with the Company, nor shall they interfere in any way with the Optionee's right or the Company's right to terminate such employment or consulting relationship at any time, with or without cause.

(c) The following limitations shall apply to grants of Options to Employees:

(i) No Employee shall be granted, in any fiscal year of the Company, Options to purchase more than 1,000,000 Shares.

(ii) In connection with his or her initial employment, an Employee may be granted Options to purchase up to an additional 1,000,000 Shares which shall not count against the limit set forth in subsection (i) above.

(iii) The foregoing limitations shall be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 14.

(iv) If an Option is cancelled in the same fiscal year of the Company in which it was granted (other than in connection with a transaction described in Section 14), the cancelled Option will be counted against the limits set forth in subsections (i) and (ii) above.

7. Term of Plan. Subject to Section 20 of the Plan, the Plan shall become

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effective upon the earlier to occur of its adoption by the Board or its approval by the stockholders of the Company as described in Section 20 of the Plan. It shall continue in effect for a term of ten (10) years unless terminated earlier under Section 16 of the Plan.

8. Term of Option. The term of each Option shall be stated in the Notice of Grant; provided, however, that in the case of an Incentive Stock Option, the term shall be ten (10) years from the date of grant or such shorter term as may be provided in the Notice of Grant.

9. Option Exercise Price and Consideration.

(a) Exercise Price. The per share exercise price for the Shares to be issued pursuant to exercise of an Option shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(b) Waiting Period and Exercise Dates. At the time an Option is granted, the Administrator shall fix the period within which the Option may be exercised and shall determine any conditions which must be satisfied before the Option may be exercised. In so doing, the Administrator may specify that an Option may not be exercised until either the completion of a service period or the achievement of performance criteria with respect to the Company or the Optionee.

(c) Form of Consideration. The Administrator shall determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Administrator shall determine the acceptable form of consideration at the time of grant. Such consideration may consist entirely of:

- (i) cash;
- (ii) check;
- (iii) promissory note;

(iv) other Shares which (A) in the case of Shares acquired upon exercise of an option, have been owned by the Optionee for more than six months on the date of surrender, and (B) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised;

(v) delivery of a properly executed exercise notice together with such other documentation as the Administrator and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the exercise price;

(vi) a reduction in the amount of any Company liability to the Optionee, including any liability attributable to the Optionee's participation in any Company-sponsored deferred compensation program or arrangement;

- (vii) any combination of the foregoing methods of payment; or

(viii) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws.

10. Exercise of Option.  
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(a) Procedure for Exercise; Rights as a Stockholder. Any Option granted  
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hereunder shall be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Option Agreement and the Notice of Grant.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed exercised when the Company receives: (i) written or electronic notice of exercise (in accordance with the Option Agreement) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised. Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Option Agreement and the Plan. Shares issued upon exercise of an Option shall be issued in the name of the Optionee or, if requested by the Optionee, in the name of the Optionee and his or her spouse. Until the stock certificate evidencing such Shares is issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 14 of the Plan.

Exercising an Option in any manner shall decrease the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Employment or Consulting Relationship. Upon  
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termination of an Optionee's Continuous Status as an Employee or Consultant, other than upon the Optionee's death or Disability, the Optionee may exercise his or her Option within such period of time as is specified in the Notice of Grant to the extent that he or she is entitled to exercise it on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant). In the absence of a specified time in the Notice of Grant, the Option shall remain exercisable for three (3) months following the Optionee's termination. If, on the date of termination, the Optionee is not entitled to exercise his or her entire Option, the Shares covered by the unexercisable portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified by the Administrator, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

Notwithstanding the above, in the event of an Optionee's change in status from Consultant to Employee or Employee to Consultant, the Optionee's Continuous Status as an Employee or Consultant shall not automatically terminate solely as a result of such change in status.

In such event, an Incentive Stock Option held by the Optionee shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option three months and one day following such change of status.

(c) Disability of Optionee. Upon termination of an Optionee's

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Continuous Status as an Employee or Consultant as a result of the Optionee's Disability, the Optionee may exercise his or her Option at any time within twelve (12) months (or such other period of time as is determined by the Administrator) from the date of termination, but only to the extent that the Optionee is entitled to exercise it on the date of termination (and in no event later than the expiration of the term of the Option as set forth in the Notice of Grant). If, on the date of termination, the Optionee is not entitled to exercise his or her entire Option, the Shares covered by the unexercisable portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(d) Death of Optionee. In the event of the death of an Optionee, the

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Option shall become fully exercisable, including as to Shares for which it would not otherwise be exercisable and may be exercised at any time within twelve (12) months (or such other period of time as is determined by the Administrator) following the date of death (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant), by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance. If, after death, the Optionee's estate or a person who acquired the right to exercise the Option by bequest or inheritance does not exercise the Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(e) Rule 16b-3. Options granted to individuals subject to Section 16 of

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the Exchange Act (Insiders) must comply with the applicable provisions of Rule 16b-3 and shall contain such additional conditions or restrictions as may be required thereunder to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

11. Stock Purchase Rights.

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(a) Rights to Purchase. Stock Purchase Rights may be issued either

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alone, in addition to, or in tandem with other awards granted under the Plan and/or cash awards made outside of the Plan. After the Administrator determines that it will offer Stock Purchase Rights under the Plan, it shall advise the offeree in writing or electronically, by means of a Notice of Grant, of the terms, conditions and restrictions related to the offer, including the number of Shares that the offeree shall be entitled to purchase, the price to be paid provided, however, that the purchase price shall not be less than the par value of the Company's Common Stock, and the time within which the offeree must accept such offer, which shall in no event exceed ninety (90) days from the later of (i) the date upon which the Administrator made the determination to grant the Stock Purchase Right, or (ii) the date the Notice of Grant of Stock Purchase Rights is delivered to the Executive. The offer shall be accepted by execution of a Restricted Stock Purchase Agreement in the form determined by the

Administrator. The number of Shares subject to grants of Stock Purchase Rights shall not exceed fifteen percent (15%) of the total number of Shares authorized under the Plan.

(b) Repurchase Option. The Restricted Stock Purchase Agreement shall

grant the Company a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser's employment with the Company for any reason (including Disability); provided, however, that such repurchase option shall terminate in the event of the death of the Purchaser. In all other cases, the repurchase option shall lapse at a rate determined by the Administrator; provided, however that, except as otherwise provided in this subsection, no portion of the repurchase option shall lapse before the end of three years from the date of purchase of the Restricted Stock. The purchase price for Shares repurchased pursuant to the Restricted Stock Purchase Agreement shall be the original price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to the Company.

(c) Rule 16b-3. Stock Purchase Rights granted to Insiders, and Shares

purchased by Insiders in connection with Stock Purchase Rights, shall be subject to any restrictions applicable thereto in compliance with Rule 16b-3. An Insider may only purchase Shares pursuant to the grant of a Stock Purchase Right, and may only sell Shares purchased pursuant to the grant of a Stock Purchase Right, during such time or times as are permitted by Rule 16b-3.

(d) Other Provisions. The Restricted Stock Purchase Agreement shall

contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Administrator in its sole discretion. In addition, the provisions of Restricted Stock Purchase Agreements need not be the same with respect to each purchaser.

(e) Rights as a Stockholder. Once the Stock Purchase Right is

exercised, the purchaser shall have the rights equivalent to those of a stockholder, and shall be a stockholder when his or her purchase is entered upon the records of the duly authorized transfer agent of the Company. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Stock Purchase Right is exercised, except as provided in Section 14 of the Plan.

(f) Issuance of Shares. As soon as possible after full payment of the

purchase price, the Shares purchased shall be duly issued; provided, however, that the Administrator may require that the purchaser make adequate provision for any Federal and State withholding obligations of the Company as a condition to such purchase.

(g) Shares Available Under the Plan. Exercise of a Stock Purchase Right

in any manner shall result in a decrease in the number of Shares that thereafter shall be available for reissuance under the Plan.

(h) Stock Withholding to Satisfy Tax Obligations. The Administrator

may, in its discretion, permit a purchaser to satisfy any withholding tax obligation that arises in connection with the vesting of Shares by electing to have the Company withhold from such vested Shares that number of Shares having a Fair Market Value equal to the amount required to be withheld. Elections

by purchasers to have Shares withheld for this purpose shall be made in writing in a form acceptable to the Administrator and shall be subject to such restrictions and limitations as the Administrator may specify.

12. Long-Term Performance Awards.  
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(a) Awards. Long-Term Performance Awards are cash or stock bonus awards  
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that may be granted either independently or along with, in addition to or in tandem with other awards granted under the Plan and/or awards made outside of the Plan. Long-Term Performance Awards shall not require payment by the recipient of any consideration for the Long-Term Performance Award or for the Shares covered by such award. The Administrator shall determine the nature, length and starting date of any performance period (the "Performance Period") for each Long-Term Performance Award and shall determine the performance and/or employment factors to be used in the determination of the value of Long-Term Performance Awards and the extent to which such Long-Term Performance Awards have been earned. Shares issued pursuant to a Long-Term Performance Award may be made subject to various conditions, including vesting or forfeiture provisions. Long-Term Performance Awards may vary from participant to participant and between groups of participants and shall be based upon the achievement of Company, Subsidiary and/or individual performance factors or upon such other criteria as the Administrator may deem appropriate. Performance Periods may overlap and participants may participate simultaneously with respect to Long-Term Performance Awards that are subject to different Performance Periods and different performance factors and criteria. Long-Term Performance Awards shall be confirmed by, and be subject to the terms of, a written Long-Term Performance Award agreement.

(b) Value of Awards. At the beginning of each Performance Period, the  
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Administrator may determine for each Long-Term Performance Award subject to such Performance Period the range of dollar values and/or numbers of Shares to be issued to the participant at the end of the Performance Period if and to the extent that the relevant measures of performance for such Long-Term Performance Award are met. Such dollar values or numbers of Shares may be fixed or may vary in accordance with such performance or other criteria as may be determined by the Administrator.

(c) Adjustment of Awards. Notwithstanding the provisions of Section 16  
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hereof, the Administrator may, after the grant of Long-Term Performance Awards, adjust the performance factors applicable to such Long-Term Performance Awards to take into account changes in the law or in accounting or tax rules and to make such adjustments as the Administrator deems necessary or appropriate to reflect the inclusion or exclusion of the impact of extraordinary or unusual items, events or circumstances in order to avoid windfalls or hardships.

(d) Termination. Unless otherwise provided in the applicable Long-Term  
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Performance Award agreement, if a participant terminates his or her employment or his or her consultancy during a Performance Period because of death or Disability, the Administrator may in its discretion provide for an earlier payment in settlement of such award, which payment may be in such amount and under such terms and conditions as the Administrator deems appropriate.

Unless otherwise provided in the applicable Long-Term Performance Award agreement, if a participant terminates employment or his or her consultancy during a Performance Period for any reason other than death or Disability, then such a participant shall not be entitled to any payment with respect to the Long-Term Performance Award subject to such Performance Period, unless the Administrator shall otherwise determine in its discretion.

(e) Form of Payment. The earned portion of a Long-Term Performance  
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Award may be paid currently or on a deferred basis (with such interest or earnings equivalent as may be determined by the Administrator). Payment shall be made in the form of cash or whole Shares (including Restricted Stock), or a combination thereof, either in a lump sum payment or in installments, all as the Administrator shall determine.

(f) Reservation of Shares. In the event that the Administrator grants a  
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Long-Term Performance Award that is payable in cash or Common Stock, the Administrator may (but need not) reserve an appropriate number of Shares under the Plan at the time of grant of the Long-Term Performance Award. If and to the extent that the full amount reserved is not actually paid in Common Stock, the Shares representing the portion of the reserve for that Long-Term Performance Award that is not actually issued in satisfaction of such Long-Term Performance Award shall again become available for award under the Plan. If Shares are not reserved by the Administrator at the time of grant, then (i) no Shares shall be deducted from the number of Shares available for grant under the Plan at that time and (ii) at the time of payment of the Long-Term Performance Award, only the number of Shares actually issued to the participant shall be so deducted. If there are not a sufficient number of Shares available under the Plan for issuance to a participant at the time of payment of a Long-Term Performance Award, any shortfall shall be paid by the Company in cash.

(g) Rule 16b-3. Grants of Long-Term Performance Awards to Directors and  
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Officers must comply with the applicable provisions of Rule 16b-3 and such Long-Term Performance Awards shall contain such additional conditions or restrictions, if any, as may be required by Rule 16b-3 to be in the written agreement relating to such Long-Term Performance Awards in order to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

13. Non-Transferability of Options, Stock Purchase Rights and Long-Term  
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Performance Awards. An Option, Stock Purchase Right or Long-Term Performance  
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Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee.

14. Adjustments Upon Changes in Capitalization, Dissolution, Merger or Asset  
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Sale.  
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(a) Changes in Capitalization. Subject to any required action by the  
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stockholders of the Company, the number of Shares covered by each outstanding Option, Long-Term Performance Award and Stock Purchase Right, and the number of Shares which have been authorized for issuance

under the Plan but as to which no Options, Long-Term Performance Awards or Stock Purchase Rights have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, Long-Term Performance Award or Stock Purchase Right, as well as the price per Share covered by each such outstanding Option, Long-Term Performance Award or Stock Purchase Right, shall be proportionately adjusted for any increase or decrease in the number of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of Shares of stock of any class, or securities convertible into Shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to an Option, Long-Term Performance Award or Stock Purchase Right.

(b) Dissolution or Liquidation. In the event of the proposed

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dissolution or liquidation of the Company, the Administrator shall notify each Optionee as soon as practicable prior to the effective date of such proposed transaction. The Administrator in its discretion may provide for an Optionee to have the right to exercise his or her Option, Stock Purchase Right or Long-Term Performance Award until ten (10) days prior to such transaction as to all of the Optioned Stock covered thereby, including Shares as to which the Option would not otherwise be exercisable. In addition, the Administrator may provide that any Company repurchase option applicable to any Shares purchased upon exercise of an Option, Stock Purchase Right or Long-Term Performance Award shall lapse as to all such Shares, provided the proposed dissolution or liquidation takes place at the time and in the manner contemplated. To the extent it has not been previously exercised, an Option, Stock Purchase Right or Long-Term Performance Award will terminate immediately prior to the consummation of such proposed action.

(c) Merger or Asset Sale. In the event of a merger of the Company with

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or into another corporation, or the sale of substantially all of the assets of the Company, each outstanding Option, Stock Purchase Right and Long-Term Performance Award shall be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation, or in the event that the successor corporation refuses to assume or substitute for the Option, Stock Purchase Right or Long-Term Performance Award, the Optionee shall have the right to exercise the Option, Stock Purchase Right or Long-Term Performance Award as to all of the Optioned Stock, including Shares as to which it would not otherwise be exercisable. If an Option, Stock Purchase Right or Long-Term Performance Award is exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Administrator shall notify the Optionee in writing or electronically that the Option, Stock Purchase Right or Long-Term Performance Award shall be fully exercisable for a period of fifteen (15) days from the date of such notice, and the Option, Stock Purchase Right or Long-Term Performance Award shall terminate upon the expiration of such period. For the purposes of this paragraph, the Option, Stock Purchase Right or Long-Term Performance Award shall be considered assumed if, following the merger or sale of assets, the option or right confers the right to purchase or receive, for each Share of Optioned Stock subject to the

Option, Stock Purchase Right or Long-Term Performance Award immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) received in the merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or sale of assets was not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option, Stock Purchase Right or Long-Term Performance Award, for each Share of Optioned Stock subject to the Option, Stock Purchase Right or Long-Term Performance Award, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or sale of assets.

15. Date of Grant. The date of grant of an Option, Stock Purchase Right or  
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Long-Term Performance Award shall be, for all purposes, the date on which the Administrator makes the determination granting such Option, Stock Purchase Right or Long-Term Performance Award, or such other later date as is determined by the Administrator. Notice of the determination shall be provided to each Optionee within a reasonable time after the date of such grant.

16. Amendment and Termination of the Plan.  
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(a) Amendment and Termination. The Board may at any time amend, alter,  
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suspend or terminate the Plan.

(b) Stockholder Approval. The Company shall obtain stockholder approval  
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of any Plan amendment to the extent necessary and desirable to comply with Rule 16b-3 or with Sections 162(m) or 422 of the Code (or any successor rule or statute or other applicable law, rule or regulation, including the requirements of any exchange or quotation system on which the Common Stock is listed or quoted). Such stockholder approval, if required, shall be obtained in such a manner and to such a degree as is required by the applicable law, rule or regulation.

(c) Effect of Amendment or Termination. No amendment, alteration,  
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suspension or termination of the Plan shall impair the rights of any Optionee, unless mutually agreed otherwise between the Optionee and the Administrator, which agreement must be in writing and signed by the Optionee and the Company.

17. Conditions Upon Issuance of Shares.  
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(a) Legal Compliance. Shares shall not be issued pursuant to the  
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exercise of an Option, Stock Purchase Right or Long-Term Performance Award unless the exercise of such Option, Stock Purchase Right or Long-Term Performance Award and the issuance and delivery of such Shares shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, Applicable Laws, and the requirements of any stock exchange or quotation system upon which the

Shares may then be listed or quoted, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise of an

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Option, Stock Purchase Right or Long-Term Performance Award, the Company may require the person exercising such Option, Stock Purchase Right or Long-Term Performance Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

18. Liability of Company.

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(a) Inability to Obtain Authority. The inability of the Company to

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obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

(b) Grants Exceeding Allotted Shares. If the Optioned Stock covered by

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an Option, Stock Purchase Right or Long-Term Performance Award exceeds, as of the date of grant, the number of Shares which may be issued under the Plan without additional stockholder approval, such Option, Stock Purchase Right or Long-Term Performance Award shall be void with respect to such excess Optioned Stock, unless stockholder approval of an amendment sufficiently increasing the number of Shares subject to the Plan is timely obtained in accordance with Section 16(b) of the Plan.

19. Reservation of Shares. The Company, during the term of this Plan, will

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at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

20. Stockholder Approval. Continuance of the Plan shall be subject to

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approval by the stockholders of the Company within twelve (12) months before or after the date the Plan is adopted. Such stockholder approval shall be obtained in the manner and to the degree required under applicable federal and state law.

Financial Review

21	Selected Five-Year Financial Data
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Selected Five-Year Financial Data

Fiscal year ended January 31,

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

	1998/4/	1997/1/	1996/1/	1995/1/	1994
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For the fiscal year					
Net revenues	\$617,126	\$496,693	\$534,167	\$454,612	\$405,596
Cost of revenues	71,338	64,217	66,812	61,725	63,338
Marketing and sales	237,107	199,939	183,550	154,562	137,788
Research and development	122,432	93,702	78,678	65,176	56,231
General and administrative	88,900	74,280	76,100	65,738	58,536
Nonrecurring charges/2/	22,187	4,738	--	25,500	--
Income from operations	75,162	59,817	129,027	81,911	89,703
Interest and other income, net	9,644	6,695	9,253	7,233	7,055
Income before income taxes	84,806	66,512	138,280	89,144	96,758
Net income	45,171	41,571	87,788	56,606	62,166
Net cash provided by operating activities	158,612	114,183	106,632	104,412	88,853
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At year end					
Cash, cash equivalents, and marketable securities	\$301,319	\$286,308	\$272,402	\$255,373	\$217,011
Current assets	307,702	297,671	335,013	360,725	279,557
Total assets	563,490	492,233	517,929	482,076	404,874
Current liabilities	199,487	150,171	144,295	154,990	102,316
Long-term liabilities	31,064	33,948	31,306	3,602	5,679
Total liabilities	230,551	184,119	175,601	158,592	107,995
Put warrants	--	64,500	--	--	--
Stockholders' equity	332,939	243,614	342,328	323,484	296,879
Working capital	108,215	147,500	190,718	205,735	177,241
Number of employees	2,470	2,044	1,894	1,788	1,788
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Common stock data					
Basic net income per share/2/, /3/	\$ 0.97	\$ 0.91	\$ 1.86	\$ 1.20	\$ 1.30
Diluted net income per share/2/, /3/	\$ 0.91	\$ 0.88	\$ 1.76	\$ 1.14	\$ 1.25
Book value per share	\$ 7.32	\$ 5.40	\$ 7.39	\$ 6.85	\$ 6.25
Dividends paid per share	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24
Shares used in computing basic net income per share/3/	46,760	45,540	47,090	47,320	47,770
Shares used in computing diluted net income per share/3/	49,860	47,190	49,800	49,840	49,740
Shares outstanding at year end	45,465	45,108	46,351	47,241	47,480
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Financial ratios					
Current ratio	1.5	2.0	2.3	2.3	2.7
Return on net revenues/2/	7.3%	8.4%	16.4%	12.5%	15.3%
Return on average assets/2/	8.6%	8.2%	17.6%	12.8%	16.3%
Return on average stockholders' equity/2/	15.7%	14.2%	26.4%	18.2%	22.0%
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Growth percentages					
Net revenues	24.2%	(7.0%)	17.5%	12.1%	14.8%
Net income/2/	8.7%	(52.6%)	55.1%	(8.9%)	41.7%
Basic net income per share/2/, /3/	6.6%	(51.1%)	55.0%	(7.7%)	42.9%
Diluted net income per share/2/, /3/	3.4%	(50.0%)	54.4%	(8.8%)	42.0%
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/1/ Certain reclassifications have been made to the 1997, 1996, and 1995 amounts presented herein to conform to the 1998 presentation.

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

/3/ Amounts have been restated to comply with the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per Share."

/4/ 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, Inc. acquisition, revised the purchase price allocation and restated its financial statements. Amounts for fiscal 1998 have been restated to adjust the allocation of the purchase price of this business combination. The adjustment had the effect of increasing net income (diluted

net income per share) by \$29,8 million, (\$0.60), for the fiscal year ended January 31, 1998.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains trend analyses and other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, trend analyses, and other information contained herein relative to markets for Autodesk's products and trends in revenues, as well as other statements including such words as "anticipate," "believe," "plan," "estimate," "expect," "goal," and "intend" and other similar expressions, constitute forward-looking statements. These forward-looking statements are subject to business and economic risks, and Autodesk's actual results could differ materially from those set forth in the forward-looking statements as a result of the factors set forth elsewhere herein, including "Certain Risk Factors Which May Impact Future Operating Results."

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

The effect of this adjustment on the previously reported consolidated financial statements as of and for the year ended January 31, 1998 are as follows (in thousands):

	YEAR ENDED	
	JANUARY 31, 1998	
	AS REPORTED	RESTATED
	-----	-----
Nonrecurring charges.....	\$58,087	\$22,187
General and administrative.....	\$83,287	\$88,900
Cost of revenues.....	\$70,858	\$71,338
Income from operations.....	\$45,355	\$75,162
Net income.....	\$15,364	\$45,171
Basic net income per share.....	\$ 0.33	\$ 0.97
Diluted net income per share.....	\$ 0.31	\$ 0.91

AS OF JANUARY 31,  
1998

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AS REPORTED    RESTATED  
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Purchased technologies and capitalized software, net.....	\$31,553	\$33,373
Goodwill, net.....	\$16,995	\$44,982
Deferred income taxes (non-current asset).....	\$13,782	\$13,782
Retained earnings.....	\$19,895	\$49,702

Results of Operations

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

	Fiscal year ended January 31,		
	1998	1997	1996
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Net revenues	100%	100%	100%
Costs and expenses:			
Cost of revenues	12	13	13
Marketing and sales	38	40	34
Research and development	20	19	15
General and administrative	14	15	14
Nonrecurring charges	4	1	--
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Total costs and expenses	88	88	76
Income from operations	12	12	24
Interest and other income, net	1	1	2
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Income before income taxes	13	13	26
Provision for income taxes	6	5	9
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Net income	7%	8%	17%
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Net revenues

Autodesk's consolidated net revenues in fiscal year 1998 were \$617.1 million, which represented a 24.2 percent increase from fiscal year 1997 net revenues of \$496.7 million. Revenues in the Americas and Europe increased \$101.0 million or 54 percent and \$19.3 million or 10 percent, respectively, from the prior fiscal year, while remaining flat in Asia Pacific. These increases were due largely to higher sales of AutoCAD(R) software, the Company's flagship product, and significant growth in the Company's market group revenues. The most recent release of AutoCAD software, AutoCAD Release 14 ("AutoCAD R14"), was released in the United States in May 1997 and in most other regions shortly thereafter. Also contributing to the increased revenues in fiscal year 1998 were revenues contributed by Softdesk, Inc., which was acquired by the Company in March 1997. Net revenues in fiscal year 1997 decreased 7 percent from the \$534.2 million posted in fiscal year 1996, reflecting primarily slowdowns in the US dealer channel, Germany, Switzerland, and France. The lower fiscal 1997 revenues reflected

slowing sales of AutoCAD and AutoCAD update software as the then most recent version of the product, Release 13, entered the end of its product life cycle.

AutoCAD and AutoCAD updates represented approximately 70 percent, 70 percent, and 80 percent of total consolidated revenues in fiscal years 1998, 1997, and 1996, respectively. During fiscal year 1998, approximately 244,000 new AutoCAD licenses were added worldwide, compared to 207,000 and 233,000 licenses added during fiscal years 1997 and 1996, respectively. AutoCAD upgrade revenues were \$108 million, \$45 million, and \$49 million in fiscal years 1998, 1997, and 1996, respectively.

Foreign revenues, including exports from the United States, accounted for approximately 58 percent, 65 percent, and 64 percent of consolidated revenues in fiscal years 1998, 1997, and 1996, respectively. The stronger value of the dollar, relative to international currencies, primarily the Japanese yen and German mark, negatively affected international revenues by approximately \$30 million in fiscal year 1998 compared to fiscal year 1997 and \$17 million in fiscal year 1997 compared to fiscal year 1996. Fluctuations in foreign exchange rates positively impacted international operating expenses by \$11 million in fiscal year 1998, and did not materially impact operating expenses in fiscal years 1997 and 1996. A summary of revenues by geographic area is presented in Note 9 to the consolidated financial statements.

The Company records product returns as a reduction of revenues. In fiscal years 1998, 1997, and 1996, product returns, consisting principally of stock rotation, totaled \$35.4 million, \$44.3 million, and \$51.2 million (or 6 percent, 9 percent, and 9 percent of total consolidated revenues, respectively). Total product returns decreased \$8.9 million from fiscal year 1997 to fiscal year 1998 due largely to continued management focus on the level of inventories with the Company's resellers, sell-through sales activities and programs in Autodesk's distribution channel, and fewer returns associated with AutoCAD R14 compared to the prior version. Returns of AutoCAD products accounted for 40 percent, 61 percent, and 79 percent of total product returns in fiscal years 1998, 1997, and 1996, respectively. The lower level of product returns in fiscal year 1998 compared to fiscal years 1997 and 1996 reflected a lower level of product rotation that had previously been associated with performance issues relating to AutoCAD Release 13 and customers' perception issues associated with this product.

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

Delays in the introduction of planned future product releases, or failure to achieve significant customer acceptance for these new products, may have a material adverse effect on the Company's revenues and consolidated results of operations in future periods. Additionally, slowdowns in any of the Company's geographical markets, including the recent economic instability in certain countries of the Asia Pacific region, could also have a material adverse effect on Autodesk's business and consolidated results of operations. The foregoing forward-looking information is based upon the Company's current expectations. Actual results could differ materially for the reasons noted and due to other risks, including, but not limited to, those mentioned above and otherwise discussed under "Certain Risk Factors Which May Impact Future Operating Results."

#### Cost of revenues

Cost of revenues includes the purchase of disks and compact disks (CD-ROMs), costs associated with transferring the Company's software to electronic media, printing of user manuals and packaging materials, freight, royalties, amortization of purchased technology and capitalized software, and, in certain foreign markets, software protection locks. When expressed as a percentage of net revenues, cost of revenues decreased approximately 1 percent in fiscal year 1998 as compared to the prior fiscal year. Gross margins in fiscal year 1998 were positively impacted by continued operational efficiencies, lower royalties for licensed technology embedded in Autodesk's products, and the geographic distribution of sales. The one-half of 1 percent decrease in gross margins between fiscal year 1996 and 1997 was largely due to the mix of product sales, particularly the fact that a smaller portion of revenues was contributed by AutoCAD and a larger portion was contributed by AutoCAD LT(R), and, to a lesser extent, the impact of increased fixed costs on a lower net revenue base. In the future, cost of revenues as a

percentage of net revenues may be impacted by the mix of product sales, royalty rates for licensed technology embedded in Autodesk's products, and the geographic distribution of sales.

#### Marketing and sales

Marketing and sales expenses include salaries, sales commissions, travel, and facility costs for the Company's marketing, sales, dealer training, and support personnel. These expenses also include programs aimed at increasing revenues, such as advertising, trade shows, and expositions, as well as various sales and promotional programs designed for specific sales channels and end users. When expressed as a percentage of net revenues, marketing and sales expenses decreased from 40 percent in fiscal year 1997 to 38 percent in fiscal year 1998. Actual fiscal year 1998 marketing and sales expenses of \$237.1 million increased by 19 percent from the \$199.9 million of expense incurred in the prior fiscal year. The increase in spending was largely due to higher employee costs and increases in advertising and promotional costs associated with the launch of AutoCAD Release 14 during the second quarter and other new and enhanced products released throughout the year. Fiscal year 1997 marketing and sales expenses of \$199.9 million increased 9 percent over fiscal year 1996 expenses of \$183.6 million due to higher employee costs as well as marketing and sales costs associated with the launch of certain new products introduced by the Company's market groups during fiscal year 1997. The Company expects to continue to invest in marketing and sales of its products, to develop market opportunities, and to promote Autodesk's competitive position. Accordingly, the Company expects marketing and sales expenses to continue to be significant, both in absolute dollars and as a percentage of net revenues.

#### Research and development

Research and development expenses consist primarily of salaries and benefits for software engineers, contract development fees, expenses associated with product translations, costs of computer equipment used in software development, and facilities expenses. During fiscal years 1998, 1997, and 1996, Autodesk incurred \$122.4 million, \$93.7 million, and \$78.7 million, respectively, of research and development expenses (excluding capitalized software development costs of \$2.2 million during fiscal year 1998; no software development costs were capitalized during fiscal years 1997 and 1996). Research and development expenses increased both in absolute dollars and as a percentage of net revenues in fiscal year 1998 due to the addition of software engineers, expenses associated with the development of new and enhanced products, and incremental research and development personnel expenses associated with the March 1997 business combination with Softdesk. The increase in research and development expenses between fiscal years 1996 and 1997 was due to the addition of software engineers and fiscal year 1997 business combinations. The Company anticipates that research and development expenses will increase in fiscal year 1999 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 include the Company's information systems, finance, human resources, legal, purchasing, and other administrative operations. Fiscal year 1998 general and administrative expenses of \$88.9 million increased 20 percent from the \$74.3 million recorded in the prior fiscal year, primarily due to higher employee-related costs and amortization expense associated with intangible assets recorded in connection with the acquisition of Softdesk, Inc. Fiscal year 1997 general and administrative expenses decreased 2 percent from fiscal year 1996 spending of \$76.1 million reflecting lower professional fees, partially offset by increased expenses to maintain and expand the Company's worldwide information systems. The Company currently expects that general and administrative expenses in the coming year will increase to support spending on infrastructure, including continued investment in Autodesk's worldwide information systems and making any additional corrections to the Company's hardware, software, and products for compliance in the year 2000.

#### Nonrecurring Charges

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

#### 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, Softdesk had spent a significant amount of research and development effort related to the re-programming of all its existing products to a new ARX technology (AutoCAD Runtime Extension) code base. The new ARX technology is expected to provide significant improvement in the orientation of objects in CAD products. As of the acquisition date,

Softdesk had completed improvements of ARX technology in various development projects associated within the following technology categories: (i) AutoCAD-Architectural/Structural, (ii) AutoCAD-Civil, (iii) AutoCAD-Imaging, (iv) AutoCAD-Maintenance, (v) AutoCAD-Productivity, and (vi) AutoCAD-Retail.

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

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

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

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

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

SOFTDESK IN-PROCESS TECHNOLOGIES	PERCENT COMPLETED	TECHNOLOGY LIFE	INTRODUCTION DATES
AutoCAD Architectural/Structural Modules...	65%	7 years	Sept 98/Jun 97
AutoCAD Civil Modules.....	90%	7 years	May/Jun 97
AutoCAD Imaging Modules.....	75%	5 years	May/Jun 97
AutoCAD Maintenance Modules.....	65%	7 years	May/Jun 97
AutoCAD Productivity Modules.....	65%	7 years	May/Jun 97
AutoCAD Retail Modules.....	70%	7 years	July 97

VALUATION ANALYSIS

Revenue

Future revenue estimates were generated from the following product families: (i) AutoCAD-Architectural/Structural, (ii) AutoCAD-Civil, (iii) AutoCAD-Imaging, (iv) AutoCAD-Maintenance, (v) AutoCAD-Productivity, and (vi) AutoCAD-Retail. Aggregate revenue for Softdesk products was estimated to be less than \$30 million for the 10 months ended January 31, 1998. Revenues, including revenues associated with yet-to-be-developed products utilizing the acquired technologies, as well as most of the in-process projects identified in the valuation analysis, were estimated to increase on an annualized basis by more than 250 percent in fiscal year 1999. Thereafter, revenue was estimated to increase at rates ranging from 11 to 17 percent for fiscal years 2000 through 2002, and stabilize at 10 percent for the remainder of the estimation period. Revenue estimates were based on (i) aggregate revenue growth rates for the business as a whole, (ii) individual product revenues, (iii) growth rates for

the CAD software market, (iv) the aggregate size of the CAD software market, (v) anticipated product development and introduction schedules, (vi) product sales cycles, and (vii) the estimated life of a product's underlying technology. The estimated product development cycle for the new modules ranged from 6 to 24 months (averaging 12 months).

#### Operating expenses

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

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

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

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

Research and development. Research and development expenses consist of the costs associated with activities undertaken to correct errors or keep products updated with current information. 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

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

#### Discount rate

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") (14.0 percent) and (ii) the Weighted Average Return on Assets (20.0 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.

#### COMPARISON TO ACTUAL RESULTS

To date, the assumptions used in the projections of revenues from in-process technologies and the estimated costs and completion dates for those technologies were reasonable based on factors known at the acquisition date. Actual revenues from in-process technologies have been less than amounts projected in connection with the analysis of the Softdesk acquisition. This shortfall reflects competitive factors related to price, difficulties in developing robust commercial applications in the new ObjectARX environment, functionality and performance in the architecture, the engineering and construction software industry, particularly in regard to localized building services applications. Partially offsetting the variance from management's original revenue projections is a favorable variance in spending such that Autodesk's return on its investment in such technologies, as well as its current and future results of operations and financial position have not been and are not expected to be adversely impacted. However, if the in-process projects contemplated in management's forecast are not successfully developed, future revenue and profitability of Autodesk may be adversely affected. Additionally, the value of other intangible assets acquired from Softdesk may become impaired.

#### Other nonrecurring charges

Nonrecurring charges in fiscal year 1998 also included charges for purchased in-process research and development associated with Autodesk's licensing of 3D/Eye technology (\$3.0 million) in fiscal year 1998 and Autodesk's acquisitions of Teleos Research (\$3.2 million) and Argus Technologies, Inc.

(\$1.5 million) in fiscal year 1997. For additional information, see "Business Combinations" in Note 1 of the Autodesk Consolidated Financial Statements.

As discussed in Note 4 to the Autodesk Consolidated Financial Statements, a \$25.5 million judgment was entered against Autodesk in fiscal year 1995 on a claim of trade secret misappropriation brought by Vermont Microsystems, Inc. ("VMI"). Autodesk recorded this nonrecurring charge in the fourth quarter of fiscal year 1995. Autodesk appealed and a reduced judgment was entered against Autodesk in February 1998 in the amount of \$7.8 million. Because the case is still subject to post-judgment motions and appeals, Autodesk has not reflected the reduction of damages in its consolidated financial statements.

#### Interest and other income

Interest income was \$9.8 million, \$8.8 million, and \$10.6 million for fiscal years 1998, 1997, and 1996, respectively. The increase in fiscal year 1998 interest income over fiscal year 1997 interest income was largely due to an increase in average cash, cash equivalents, and marketable securities balances. The decrease in fiscal year 1997 interest income from the prior fiscal year resulted from a lower average balance of cash, cash equivalents, and marketable securities, partially offset by higher interest rates on the Company's international investment portfolio when compared to the same period in the prior fiscal year. Interest and other income for fiscal years 1998, 1997, and 1996 was net of interest expense of \$0.2 million, \$1.8 million, and \$1.8 million, respectively.

The Company has a hedging program to minimize foreign exchange gains or losses, where possible, from recorded foreign-denominated assets and liabilities. This program involves the use of forward foreign exchange contracts in the primary European and Asian currencies. The Company does not hedge anticipated foreign-denominated revenues and expenses not yet incurred. Gains (losses) resulting from foreign currency transactions primarily in Europe and Asia Pacific, which are included in interest and other income, were (\$68,000), (\$197,000), and \$554,000 in fiscal years 1998, 1997, and 1996, respectively.

#### Provision for income taxes

Autodesk's effective income tax rate, excluding one-time charges for acquired in-process research and development associated with the March 1997 acquisition of Softdesk and fiscal year 1997 acquisitions, was 38.0 percent in fiscal year 1998 compared to 35.5 percent and 36.5 percent in fiscal years 1997 and 1996, respectively. The increase in the effective income tax rate in fiscal year 1998 compared to fiscal year 1997 was principally due to the amortization of certain intangible assets not deductible for tax purposes and foreign earnings which are taxed at rates different than the U.S. statutory rate. The decrease in the tax rate between fiscal years 1997 and 1996 was due largely to a decrease in the Company's effective state income tax rate. See Note 3 to the consolidated financial statements for an analysis of the differences between the U.S. statutory and the effective income tax rates.

The Company's United States income tax returns for fiscal years ended January 31, 1992 through 1996 are under examination by the Internal Revenue Service. On August 27, 1997, the Internal Revenue Service issued a Notice of Deficiency proposing increases to the amount of the Company's United States income taxes for fiscal years 1992 and 1993. On November 25, 1997, the Company filed a petition with the United States Tax Court to contest these alleged tax deficiencies. Management believes that adequate amounts have been provided for any adjustments that may ultimately result from these examinations.

#### Comprehensive income

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

#### Recently issued accounting standards

In June 1997,

the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), which establishes standards for the way public business enterprises report information in annual statements and interim financial reports regarding operating segments, products and services, geographic areas, and major customers. SFAS 131 will first be reflected in the Company's fiscal year 1999 Annual Report and will apply to both annual and interim financial reporting subsequent to this date. The Company is currently evaluating the impact of SFAS 131 on its financial disclosures.

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

In October 1997, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2"), which supersedes SOP 91-1. SOP 97-2 will be effective beginning in fiscal year 1999. In March 1998, the AICPA issued Statement of Position 98-4 ("SOP 98-4"), which amends certain provisions of SOP 97-2. The Company believes it is in compliance with the provisions of SOP 97-2 as amended by SOP 98-4. However, detailed implementation guidelines for this standard have not been issued. Once issued, such guidance could lead to unanticipated changes in the Company's current revenue recognition practices and such changes could be material to the Company's results of operations. In December 1998, the AICPA issued Statement of Position 98-9, which amends certain provisions of SOP 97-2 and extends the deferral of the application of certain passages of SOP 97-2 provided by SOP 98-4 until the beginning of Autodesk's fiscal year 2000. Autodesk is currently evaluating the impact of SOP 98-9 on its financial statements and related disclosures.

In March 1998, the Accounting Standards Executive Committee issued Statement of Position 98-1 ("SOP 98-1"), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." This standard requires companies to capitalize qualifying computer software costs which are incurred during the application development stage and amortize them over the software's estimated useful life. The Company is required to adopt this standard in fiscal year 2000 and is currently evaluating the impact that its adoption will have on the consolidated financial position and results of operations of the Company.

#### Certain Risk Factors Which May Impact Future Operating Results

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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 Autodesk 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"). The Company'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 System's ("Dassault"); Solidworks Corporation (a subsidiary of Dassault); and Baystate Technologies, Inc. The Company'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.; Microsoft Corporation and Silicon Graphics, Inc. The Personal Solutions Group family of products competes with Broderbund Software, Inc.; IMSI; Visio; and Micrografx Inc. Certain of the competitors of the Company have greater financial, technical, sales and marketing, and other resources than the Company.

Autodesk believes that the principal factors affecting competition in its markets are product reliability, performance, 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 impact on its business or results of operations.

#### Fluctuations in quarterly operating results

The Company has experienced fluctuations in operating results in interim periods in certain geographic regions due to seasonality. 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 the Company experienced more linear operating results within fiscal year 1998 compared to prior years, historically the majority of the Company's orders within a fiscal quarter have frequently been concentrated within the last weeks or days of that quarter. These fluctuations are caused by a number of factors, including the relatively long sales cycle of some of the Company's products, the timing of the introduction of new products by the Company or its competitors, and other economic factors experienced by the Company's customers and the geographic regions in which the Company does business. Additionally, the Company'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 updates, 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 the Company'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 Autodesk'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 US dollar and foreign currencies in markets where Autodesk does business.

During fiscal year 1998, changes in exchange rates from the same period of the prior fiscal year adversely impacted revenues, principally due to changes in the Japanese yen and the German mark. As more fully described in Note 2 to the consolidated financial statements, the Company's risk management strategy uses derivative financial instruments in the form of forward foreign exchange contracts for the purpose of hedging foreign currency market exposures of underlying assets, liabilities, and other obligations which exist as a part of its ongoing business operations. The Company does not enter into derivative contracts for the purpose of trading or speculative transactions. The Company's international results may also be impacted by general economic and political conditions in these foreign markets. Autodesk's international results have been impacted by recent unfavorable economic and political conditions in the Asian markets. There can be no assurance that the economic crisis and currency issues currently being experienced 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 the Company'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 US 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 in the United States are Avatech, Advanced Enterprise Solutions and Integrated Systems Technologies.

#### 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. While the Company experienced a decrease in the overall level of product returns in fiscal year 1998 compared to fiscal years 1997 and 1996, 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 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 overlaps. 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 to, or inability to support, maintain, and enhance any such software, could result in increased costs, or in delays or reductions in product shipments until equivalent software could be developed, identified, licensed, and integrated, which could have a material adverse effect on the Company's business and consolidated results of operations.

#### Risks associated with 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 on the Company's business, financial condition, or results of operations. In addition, such investments and acquisitions may contribute to potential fluctuations in quarterly results of operations due to merger-related costs and charges associated with eliminating redundant expenses or write-offs of impaired assets recorded in connection with acquisitions, any of which could negatively impact results of operations for a given period or cause lack of linearity quarter to quarter in the Company's operating results or financial condition.

During the first quarter of fiscal year 1998, the Company completed its acquisition of all of the outstanding stock of Softdesk, Inc. The Company continues to integrate the operations acquired in the Softdesk merger with its own. There can be no assurance that the anticipated benefits of the Softdesk merger and any future mergers or 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, which are described in more detail in Note 6 to the consolidated financial statements. 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. Additionally, as the Company is in the business of software production, year 2000 issues may affect the Company's products which are being sold externally.

The Company launched a six-phase year 2000 compliance program in the third quarter of fiscal year 1998. The first and second phases, respectively, included conducting preliminary and detailed assessments of vendor hardware and software to determine the Company's overall exposure to the year 2000 issue. The third phase included implementing a year-2000-compliant procurement process and testing the current desktop operating environment.

These three phases were complete as of the end of fiscal year 1998 and cost approximately \$500,000. These costs have been charged to expense as incurred.

The fourth phase of the compliance program involves determining a working plan, including defining the future analyses needed, the scope, and total budget for required compliance actions. The fifth phase involves the repair or replacement of any noncompliant hardware or software currently purchased or developed internally. The sixth and final phase will involve a final systems check to ensure that all hardware and software in use by the Company is compliant. The Company expects to spend between \$5 million and \$6 million during fiscal year 1999 to complete phases four, five, and six. Of the total cost, Autodesk plans to capitalize up to \$1.7 million as it relates primarily to the purchase of new software. The remaining \$3.3 million to \$4.3 million relates to modifying existing software and will be expensed as incurred in accordance with EITF 96-14, "Accounting for the Costs Associated with Modifying Computer Software for the Year 2000." 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 all products it currently produces internally for sale to third parties to determine compliance of its products. Products currently sold either have been found to be substantially compliant or are currently being tested for compliance. However, many Autodesk/R/ products run on computer hardware and operating systems produced and sold by third-party vendors. There can be no assurance that these computer hardware and operating systems will be converted in a timely manner, and any failure in this regard may cause Autodesk products not to function as designed. 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. The Company anticipates that all compliance procedures will be completed before the beginning of the Company's fiscal year 2000, which begins February 1, 1999.

#### Liquidity and Capital Resources

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Cash, cash equivalents, and marketable securities, which consist primarily of high-quality municipal bonds, tax-advantaged money market instruments, and US treasury bills, totaled \$301.3 million at January 31, 1998, compared to \$286.3 million at January 31, 1997. The \$15.0 million increase in cash, cash equivalents, and marketable securities was due primarily to cash generated from operations (\$158.6 million) and cash proceeds from the issuance of shares through employee stock option and stock purchase programs (\$80.1 million). This increase was partially offset by cash used to repurchase shares of the Company's common stock (\$174.9 million), to acquire complementary software technologies and businesses (\$19.8 million), to purchase computer equipment, furniture, and leasehold improvements (\$15.0 million), and to pay dividends on the Company's common stock (\$11.3 million).

During fiscal years 1998, 1997, and 1996, the Company repurchased and retired a total of 2,332,500, 1,659,500, and 2,671,000 shares of its common stock at average repurchase prices of \$38.39, \$32.44, and \$40.43, respectively, pursuant to an ongoing and systematic repurchase plan ("Systematic Plan") approved by the Company's Board of Directors to reduce the dilutive effect of common shares to be issued under the Company's employee stock plans. In December 1997, the Board of Directors authorized the purchase of an additional 4 million shares under the Systematic Plan.

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

In connection with the Supplemental Plan, the Company sold put warrants to an independent third party in September 1996 and purchased call options from the same independent third party. The premiums received with respect to the equity options equaled the premiums paid. Consequently, there was no exchange of cash. The Company exercised the call options, repurchasing 2,000,000 shares of its common stock during the third quarter of fiscal year 1998 for \$51 million.

The put warrants expired unexercised in September 1997 and were reclassified from put warrants to stockholders' equity during the third quarter of fiscal year 1998. For additional information, see Note 7 to the consolidated financial statements. In addition to the exercise of the call options in fiscal year 1998, the Company repurchased an additional 1,000,000 shares in the open market at an average per share repurchase price of \$34.37. During fiscal year 1997, the Company repurchased 557,500 shares at an average per share repurchase price of \$24.09 subject to the Supplemental Plan.

In December 1997, the Company sold put warrants to an independent third party that entitle 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 entitle the Company to buy 1 million shares at \$39.88 per share. The premiums received with respect to the equity options totaled \$4.5 million and equaled the premiums paid. Consequently, there was no exchange of cash. The outstanding put warrants at January 31, 1998, permitted a net share settlement at the Company's option. As a result, the transaction did not result in a put warrant liability on the consolidated balance sheet.

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

The Company's principal commitments at January 31, 1998, consisted of obligations under operating leases for facilities. For additional information, see Note 5 to the consolidated financial statements. Autodesk believes that its existing cash, cash equivalents, marketable securities, available line of credit, and cash generated from operations will be sufficient to satisfy its currently anticipated cash requirements for fiscal year 1999.

Longer-term cash requirements, other than normal operating expenses, are anticipated for development of new software products and enhancement of existing products; financing anticipated growth; dividend payments; repurchases of the Company's common stock; and the 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.

## Consolidated Statement of Income

(In thousands, except per share data)	Fiscal year ended January 31,		
	1998	1997	1996
	Restated		
Revenues	\$ 632,358	\$ 509,630	\$ 546,884
Direct commissions	15,232	12,937	12,717
Net revenues	617,126	496,693	534,167
Costs and expenses:			
Cost of revenues	71,338	64,217	66,812
Marketing and sales	237,107	199,939	183,550
Research and development	122,432	93,702	78,678
General and administrative	88,900	74,280	76,100
Nonrecurring charges	22,187	4,738	--
Total costs and expenses	541,964	436,876	405,140
Income from operations	75,162	59,817	129,027
Interest and other income, net	9,644	6,695	9,253
Income before income taxes	84,806	66,512	138,280
Provision for income taxes	39,635	24,941	50,492
Net income	\$ 45,171	\$ 41,571	\$ 87,788
Basic net income per share	\$ 0.97	\$ 0.91	\$ 1.86
Diluted net income per share	\$ 0.91	\$ 0.88	\$ 1.76
Shares used in computing basic net income per share	46,760	45,540	47,090
Shares used in computing diluted net income per share	49,860	47,190	49,800

See accompanying notes.

## Consolidated Balance Sheet

(In thousands)	January 31,	
	1998	1997
	----- Restated	
Assets		
Current assets:		
Cash and cash equivalents	\$ 96,089	\$ 64,814
Marketable securities	100,399	117,971
Accounts receivable, net of allowance for doubtful accounts of \$7,136 (\$6,635 in 1997)	60,856	68,577
Inventories	7,351	7,340
Deferred income taxes	27,577	22,759
Prepaid expenses and other current assets	15,430	16,210
-----		
Total current assets	307,702	297,671
Marketable securities, including a restricted balance of \$18,000 (\$28,000 in 1997)	104,831	103,523
Computer equipment, furniture, and leasehold improvements:		
Computer equipment and furniture	117,434	103,903
Leasehold improvements	20,505	17,818
Accumulated depreciation	(98,800)	(77,671)
-----		
Net computer equipment, furniture, and leasehold improvements	39,139	44,050
Purchased technologies and capitalized software, net of accumulated amortization of \$31,400 (\$18,700 in 1997)	33,373	15,916
Goodwill	44,982	6,470
Deferred income taxes	13,782	12,857
Other assets	19,681	11,746
-----		
	\$ 563,490	\$ 492,233
-----		
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 26,417	\$ 24,557
Accrued compensation	34,962	18,099
Accrued income taxes	76,465	75,061
Deferred revenues	18,934	3,141
Other accrued liabilities	42,709	29,313
-----		
Total current liabilities	199,487	150,171
Deferred income taxes	481	2,974
Litigation accrual	29,328	29,328
Other liabilities	1,255	1,646
Commitments and contingencies		
Put warrants	--	64,500
Stockholders' equity:		
Common stock, \$0.01 par value; 100,000 shares authorized, 45,465 issued and outstanding (45,108 in 1997)	299,315	147,091
Accumulated other comprehensive income	(16,078)	(9,849)
Retained earnings	49,702	106,372
-----		
Total stockholders' equity	332,939	243,614
-----		
	\$ 563,490	\$ 492,233
-----		

See accompanying notes.

## Consolidated Statements of Cash Flows

(In thousands)	Fiscal year ended January 31,		
	1998	1997	1996
	----- Restated		
Operating activities			
Net income	\$ 45,171	\$ 41,571	\$ 87,788
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	49,947	34,833	25,247
Charge for acquired in-process research and development	22,187	4,738	--
Changes in operating assets and liabilities, net of business combinations:			
Accounts receivable	8,829	25,365	(7,579)
Inventories	534	2,345	(3,850)
Deferred income taxes	(10,947)	(785)	(4,567)
Prepaid expenses and other current assets	1,501	890	(6,443)
Accounts payable and accrued liabilities	40,125	(4,318)	3,721
Accrued income taxes	1,265	9,544	12,315
Net cash provided by operating activities	158,612	114,183	106,632
Investing activities			
Purchases of available-for-sale marketable securities	(1,102,015)	(683,550)	(224,655)
Maturities of available-for-sale marketable securities	1,126,174	604,727	141,893
Purchase of computer equipment, furniture, and leasehold improvements	(15,000)	(17,409)	(16,306)
Business combinations, net of cash acquired	(5,766)	(9,908)	(7,194)
Purchases of software technologies and capitalization of software costs	(19,833)	(995)	(1,409)
Other	(36)	(3,407)	3,083
Net cash used by investing activities	(16,476)	(110,542)	(104,588)
Financing activities			
Proceeds from issuance of common stock	80,059	23,307	46,424
Repurchase of common stock	(174,907)	(67,269)	(107,976)
Dividends paid	(11,290)	(10,879)	(11,184)
Net cash used in financing activities	(106,138)	(54,841)	(72,736)
Effect of exchange rate changes on cash	(4,723)	(13,291)	4,959
Net increase (decrease) in cash and cash equivalents	31,275	(64,491)	(65,733)
Cash and cash equivalents at beginning of year	64,814	129,305	195,038
Cash and cash equivalents at end of year	\$ 96,089	\$ 64,814	\$ 129,305
Supplemental disclosure of noncash investing and financing activities:			
Common stock issued in connection with the acquisition of Softdesk	\$ 92,021	\$ --	\$ --

See accompanying notes.

Consolidated Statement of Stockholders' Equity

Three-year period ended January 31, 1998

	Common Stock		Accumulated Other Comprehensive Income		Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Comprehensive Income	Comprehensive Income		
Balances, January 31, 1995.....	47,241	\$100,870		\$ 7,303	\$ 215,311	\$ 323,484
Common shares issued under stock option and stock purchase plans...	1,781	35,712				35,712
Tax effect of stock options.....		10,712				10,712
Comprehensive income:						
Net income.....			\$ 87,788		87,788	87,788
Other comprehensive income, net of tax:						
Unrealized gains on available-for-sale securities, net of reclassification adjustments.....			888			888
Foreign currency translation adjustment.....			2,904			2,904
Other comprehensive income.....			3,792	3,792		
Comprehensive income....			\$ 91,580			
Dividends paid.....					(11,184)	(11,184)
Repurchase of common shares.....	(2,671)	(6,529)			(101,447)	(107,976)
Balances, January 31, 1996.....	46,351	140,765		11,095	190,468	342,328
Common shares issued under stock option and stock purchase plans...	974	20,729				20,729
Tax effect of stock options.....		2,578				2,578
Reclassification of put warrants.....		(9,870)			(54,630)	(64,500)
Comprehensive income:						
Net income.....			41,571		41,571	41,571
Other comprehensive loss, net of tax:						
Unrealized losses on available-for-sale securities, net of reclassification adjustments.....			(426)			(426)
Foreign currency translation adjustment.....			(20,518)			(20,518)
Other comprehensive income.....			(20,944)	(20,944)		
Comprehensive income....			\$ 20,627			
Dividends paid.....					(10,879)	(10,879)
Repurchase of common shares.....	(2,217)	(7,111)			(60,158)	(67,269)
Balances, January 31, 1997.....	45,108	147,091		(9,849)	106,372	243,614
Common shares issued under stock option and stock purchase plans...	2,790	63,829				63,829
Tax effect of stock options.....		16,230				16,230
Reclassification of put warrants.....		9,870			54,630	64,500
Shares issued in connection with business combination...	2,900	92,021				92,021
Comprehensive income:						
Net income (restated).....			45,171		45,171	45,171
Other comprehensive income (loss), net of tax:						
Unrealized gains on available-for-sale securities, net of reclassification						

adjustments.....			362		362
Foreign currency translation adjustment.....			(6,591)		(6,591)
			-----		
Other comprehensive income.....			(6,229)	(6,229)	
			-----		
Comprehensive income (restated).....			\$ 38,942		
			=====		
Dividends paid.....				(11,290)	(11,290)
Repurchase of common shares.....	(5,333)	(29,726)		(145,181)	(174,907)
	-----	-----		-----	-----
Balances, January 31, 1998 (restated).....	45,465	\$299,315	\$(16,078)	\$ 49,702	\$ 332,939
	=====	=====	=====	=====	=====

See accompanying notes.

Note 1. Summary of Significant Accounting Policies

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## Operations

Autodesk, Inc. ("Autodesk" or the "Company"), is a leader in the development and marketing of design and drafting software and multimedia tools, primarily for the business and professional environment. Autodesk's flagship product, AutoCAD, is one of the world's leading computer-aided design ("CAD") tools, with an installed base of 1.9 million seats worldwide.

## Restatement of Financial Statements

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

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

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

## Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. Certain reclassifications have been made to the 1996 and 1997 consolidated financial statements to conform to the 1998 presentation.

The asset and liability accounts of foreign subsidiaries are translated from their respective functional currencies at the rates in effect at the balance sheet date, and revenue and expense accounts are translated at weighted average rates during the period. Foreign currency translation adjustments are reflected within accumulated other comprehensive income, a component of stockholders' equity. Gains (losses) resulting from foreign currency transactions, which are included in interest and other income, were (\$68,000), (\$197,000), and \$554,000 in fiscal years 1998, 1997, and 1996, respectively.

## Business combinations

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

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

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

Total purchase consideration..... \$ 94,100  
 =====

Purchased In-Process Research and Development. Management estimated that \$19.2 million of the purchase price represented purchased in-process technology that had not yet reached technological feasibility and had no alternative future use. Accordingly, this amount was expensed in the 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 value was determined by estimating the costs to develop the purchased in-process technology into commercially viable products, estimating the resulting net cash flows from such projects, and discounting the net cash flows back to their present value. The discount rate included a factor that took into account the uncertainty surrounding the successful development of the purchased in-process technology projects.

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

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

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

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

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

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

In fiscal year 1996, the Company acquired certain assets of Automated Methods (Pty) Ltd. and made final payments to the former stockholders of Ithaca Software, which was acquired by the Company in August 1993, based on revenues as specified in the acquisition agreement. Cash payments in fiscal year 1996 associated with these transactions totaled approximately \$7.2 million. All of these acquisitions were accounted for using the purchase method of accounting with the purchase price being principally allocated to purchased technologies and capitalized software, intangible assets, and for the Teleos and Argus acquisitions, in-process research and development. The Company is amortizing these intangible assets on a straight-line basis over the remaining useful lives of the assets. The operating results of the acquired businesses, which have not been material in relation to those of the Company, have been included in the accompanying consolidated financial statements from their respective dates of acquisition. Additional consideration may also be payable to the former stockholders of CIT, Argus, Automated Methods, and Teleos based on product milestones and operating results, which are expected to be allocated to intangible assets and amortized on a straight-line basis over the remaining useful lives of the assets.

#### Use of estimates

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

#### Foreign currency translation

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

#### Cash and cash equivalents

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

#### Marketable securities

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

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

#### Concentration of credit risk

The Company places its cash, cash equivalents, and marketable securities with financial institutions with high credit standing and, by policy, limits the amounts invested with any one institution, type of security, and issuer. Autodesk's accounts receivable are derived from software sales to a large number of resellers and distributors in the Americas, Europe, and Asia Pacific. The Company performs ongoing evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary, but generally requires no collateral.

#### Inventories

Inventories, consisting principally of disks, compact disks (CD-ROMs), and technical manuals, are stated at the lower of cost (determined on the first-in, first-out method) or market.

#### Computer equipment, furniture, and leasehold improvements

Computer equipment, furniture, and leasehold improvements are stated at cost. Computer equipment and furniture are depreciated using the straight-line method over the estimated useful lives of the assets, which range from two to five years.

Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful life or the lease term. Depreciation expense was \$22,876,000, \$21,252,000, and \$13,482,000 in fiscal years 1998, 1997, and 1996, respectively.

#### Purchased technologies and capitalized software

Costs incurred in the initial design phase of software development are expensed as incurred. Once the point of technological feasibility is reached, production costs (programming and testing) are capitalized. Certain acquired software-technology rights are also capitalized. Capitalized software costs are amortized ratably as revenues are recognized, but not less than on a straight-line basis over two- to seven-year periods. Amortization expense was \$13,148,000, \$9,563,000, and \$11,765,000 in fiscal years 1998, 1997, and 1996, respectively. The actual lives of the Company's purchased technologies or capitalized software may differ from the Company's estimates, and such differences could cause carrying amounts of these assets to be reduced materially.

#### Other assets and goodwill

Amortization of purchased intangibles and goodwill is provided on a straight-line basis over the respective useful lives of the assets, which range from three to ten years. Accumulated amortization was \$28,169,000 and \$14,293,000 in fiscal years 1998 and 1997, respectively. The Company evaluates the realizability and the related periods of amortization of these assets on a regular basis. Amortization expense was \$13,923,000 and \$4,018,000 in fiscal years 1998 and 1997, respectively. (The Company did not incur amortization expense in fiscal year 1996.)

#### Employee stock compensation

The Company accounts for its employee stock plans under the intrinsic-value-based method under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

#### Revenue recognition

Autodesk's revenue recognition policy is in compliance with the provisions of the American Institute of Certified Public Accountants' Statement of Position 91-1, "Software Revenue Recognition" ("SOP 91-1"). Revenue from resellers and distributors is recognized at the time of shipment to these parties, provided that no significant vendor obligations exist and collection of the resulting receivable is deemed probable. A portion of revenues related to certain customer consulting and training obligations is deferred, while costs associated with certain postsale customer obligations are accrued.

With the exception of certain European distributors, agreements with the Company's VARs do not contain specific product-return privileges. However, Autodesk permits its VARs to return product in certain instances, generally during periods of product transition and during update cycles.

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

#### Advertising

Advertising costs are expensed the first time the advertising takes place. Total advertising expenses incurred during fiscal years 1998, 1997, and 1996 were \$12,194,000, \$10,830,000, and \$8,489,000, respectively.

#### Royalties

The Company licenses software used to develop components of AutoCAD, Mechanical Desktop(R), 3D Studio MAX(R), and certain other software products. Royalties are payable to developers of the software at various rates and amounts generally based on unit sales or revenues. Royalty expense was \$7,640,000, \$8,000,000, and \$6,102,000 in fiscal years 1998, 1997, and 1996, respectively. Such costs are included as a component of cost of revenues.

#### Net income per share

The Company adopted Financial Accounting Standards Board Statement No. 128, "Earnings Per Share" ("SFAS 128") in the fourth quarter of fiscal year 1998. SFAS 128 requires companies to present both basic net income per share and diluted

net income per share. Basic net income per share excludes dilutive common stock equivalents and is calculated as net income divided by the weighted average 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:

(In thousands)	Fiscal Year Ending January 31,		
	1998	1997	1996
-----			
Numerator:	Restated		
Numerator for basic and diluted net income per share--net income	\$45,171	\$41,571	\$87,788
-----			
Denominator:			
Denominator for basic net income per share--weighted average shares	46,760	45,540	47,090
Effect of dilutive common stock options	3,100	1,650	2,710
-----			
Denominator for diluted net income per share	49,860	47,190	49,800
-----			

The Company has restated all prior year amounts to comply with this standard. See Note 8 to see related quarterly financial data amounts, as restated.

#### Comprehensive Income

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

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

	January 31,	
	1998	1997
-----		
(In thousands)		
Unrealized gains on available for sale securities, net of tax.....	\$ 577	\$ 215
Foreign currency translation adjustment.....	(16,655)	(10,064)
-----		
Total accumulated other comprehensive income.....	\$(16,078)	\$ (9,849)
=====		

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

	Amount Before Taxes	Income Tax (Expense) Benefit	Amount Net of Taxes
----- (In Thousands) -----			
<b>Fiscal Year 1998</b>			
Net unrealized gains on available-for-sale securities.....	\$ 565	\$(203)	\$ 362
Foreign currency translation adjustments.....	(6,591)	--	(6,591)
	-----	-----	-----
Total other comprehensive loss.....	\$ (6,026)	\$(203)	\$ (6,229)
	=====	=====	=====
<b>Fiscal Year 1997</b>			
Net unrealized losses on available-for-sale securities.....	\$ (660)	\$ 234	\$ (426)
Foreign currency translation adjustments.....	(20,518)	--	(20,518)
	-----	-----	-----
Total other comprehensive loss.....	\$(21,178)	\$ 234	\$(20,944)
	=====	=====	=====
<b>Fiscal Year 1996</b>			
Net unrealized gains on available-for-sale securities.....	\$ 1,398	\$(510)	\$ 888
Foreign currency translation adjustments.....	2,904	--	2,904
	-----	-----	-----
Total other comprehensive income.....	\$ 4,302	\$(510)	\$ 3,792
	=====	=====	=====

#### Recently issued accounting standards

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), which establishes standards for the way public business enterprises report information in annual statements and interim financial reports regarding operating segments, products and services, geographic areas, and major customers. SFAS 131 will first be reflected in the Company's fiscal year 1999 Annual Report and will apply to both annual and interim financial reporting subsequent to this date. The Company is currently evaluating the impact of SFAS 131 on its financial disclosures.

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

In October 1997, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2"), which supersedes SOP 91-1. SOP 97-2 will be effective beginning in fiscal year 1999. In March 1998, the AICPA issued Statement of Position 98-4 ("SOP 98-4"), which amends certain provisions of SOP 97-2. The Company believes it is in compliance with the provisions of SOP 97-2 as amended by SOP 98-4. However, detailed implementation guidelines for this standard have not been issued. Once issued, such guidance could lead to unanticipated changes in the Company's current revenue recognition practices, and such changes could be material to the Company's results of operations.

In December 1998, the AICPA issued Statement of Position 98-9, which amends certain provisions of SOP 97-2 and extends the deferral of the application of certain passages of SOP 97-2 provided by SOP 98-4 until the beginning of Autodesk's fiscal year 2000. Autodesk is currently evaluating the impact of SOP 98-9 on its financial statements and related disclosures.

In March 1998, the Accounting Standards Executive Committee issued 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 Company is required to adopt this standard in fiscal year 2000 and is currently evaluating the impact that its adoption will have on the consolidated financial position and results of operations of the Company.

Note 2. Financial Instruments

Fair values of financial instruments

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

(In thousands)	January 31, 1998		January 31, 1997	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	\$ 96,089	\$ 96,089	\$ 64,814	\$ 64,814
Marketable securities	205,230	205,230	221,494	221,494
Forward foreign currency contracts	(124)	(124)	(458)	(458)

Foreign currency contracts

The Company utilizes derivative financial instruments in the form of forward foreign exchange contracts only for the purpose of hedging foreign currency market exposures of underlying assets, liabilities, and other obligations which exist as a part of its ongoing business operations. The Company, as a matter of policy, does not engage in trading or speculative transactions. In general, instruments used as hedges must be effective at reducing the foreign currency risk associated with the underlying transaction being hedged and must be designated as a hedge at the inception of the contract. Substantially all forward foreign currency contracts entered into by the Company have maturities of 60 days or less. The Company uses the forward contracts only as hedges of existing transactions. Amounts receivable and payable on forward foreign exchange contracts are recorded as other current assets and other accrued liabilities, respectively. For these contracts, mark-to-market gains and losses are recognized as other income or expense in the current period, generally consistent with the period in which the gain or loss of the underlying transaction is recognized. Cash flows associated with derivative transactions are classified in the statement of cash flows in a manner consistent with those of the transactions being hedged. The notional amounts of foreign currency contracts were \$38.8 million and \$35.7 million at January 31, 1998 and 1997, respectively, and were predominantly to buy Swiss francs. While the contract or notional amount is often used to express the volume of foreign exchange contracts, the amounts potentially subject to credit risk are generally limited to the amounts, if any, by which the counterparties' obligations under the agreements exceed the obligations of the Company to the counterparties.

Marketable securities

Marketable securities include the following available-for-sale securities at January 31, 1998 and 1997:

(In thousands)	January 31, 1998			
	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Short-term:				
Municipal bonds	\$ 24,383	\$ --	\$ (22)	\$ 24,361
Treasury bills	9,994	2	--	9,996
Preferred stock	2,000	--	--	2,000
Money market deposits	64,042	--	--	64,042
	100,419	2	(22)	100,399
Long-term:				
Municipal bonds	85,911	935	--	86,846
US Treasury bills	17,987	--	(2)	17,985
	103,898	935	(2)	104,831
	\$204,317	\$937	\$ (24)	\$205,230

(In thousands)	January 31, 1997			
	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Short-term:				
Municipal bonds	\$ 70,325	\$ 43	\$ --	\$ 70,368
Preferred Stock	2,000	--	--	2,000
Time deposits	45,603	--	--	45,603
	117,928	43	--	117,971
Long-term:				
Municipal bonds	72,565	--	(74)	72,491
US Treasury notes	28,592	--	(592)	28,000
Preferred stock and other	3,022	10	--	3,032
	104,179	10	(666)	103,523
	\$222,107	\$ 53	\$(666)	\$221,494

Long-term US Treasury bills included a restricted balance of \$18.0 million at January 31, 1998, and \$28.0 million at January 31, 1997 (see Note 4). The contractual maturities of Autodesk's short-term marketable securities at January 31, 1998, were one year or less while the Company's long-term marketable securities had contractual maturities as follows: \$59.6 million between one and two years; \$13.7 million maturing in three years; \$9.6 million maturing in four to five years; and \$21.9 million beyond five years. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay or call obligations without prepayment penalties. Realized gains and losses on sales of available-for-sale securities were immaterial in fiscal years 1998, 1997, and 1996. The cost of securities sold is based on the specific identification method.

Note 3. Income Taxes

The provision for income taxes consists of the following:

(In thousands)	Fiscal year ended January 31,		
	1998	1997	1996
Federal:			
Current	\$31,749	\$5,546	\$26,711
Deferred	(7,978)	1,133	(3,392)
State:			
Current	5,594	4,796	8,779
Deferred	(1,398)	(1,148)	(856)
Foreign:			
Current	14,083	15,503	19,569
Deferred	(2,415)	(889)	(319)
	\$39,635	\$24,941	\$50,492

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

(In thousands)	Fiscal year ended January 31,		
	1998	1997	1996
Income tax provision at statutory rate	\$29,682	\$23,279	\$48,398
Foreign income taxed at rates different from the US statutory rate	(1,005)	(1,644)	(7,863)
State income taxes, net of federal benefit	2,727	2,371	8,616
Tax-exempt interest	(2,031)	(1,348)	(1,668)
Acquired in-process research and development	6,720	1,130	--
Goodwill amortization	3,597	695	723
Other	(55)	458	2,286
	\$39,635	\$24,941	\$50,492

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

(In thousands)	January 31,	
	1998	1997
Accrued state income taxes	\$ 5,667	\$ 5,562
Accrued legal judgment, including accrued interest	13,863	13,822
Reserves for product returns and bad debts	9,728	7,864
Accrued compensation and benefits	3,809	2,950
Purchased technology and capitalized software	11,079	6,270
Unremitted earnings of certain subsidiaries	(6,018)	(6,018)
Other, net	2,750	2,192
Net deferred tax assets	\$40,878	\$32,642

The tax benefit associated with dispositions from employee stock plans reduced taxes currently payable for fiscal years 1998, 1997, and 1996 by \$16,230,000, \$2,578,000, and \$10,712,000, respectively. No provision has been made for federal income taxes on unremitted earnings of certain of the Company's foreign subsidiaries (cumulative \$159 million at January 31, 1998) since the Company plans to reinvest all such earnings for the foreseeable future. At January 31, 1998, the unrecognized deferred tax liability for these earnings was approximately \$44.0 million. Foreign pretax income was \$55.1 million, \$45.0 million, and \$64.4 million in fiscal years 1998, 1997, and 1996, respectively.

The Company's United States income tax returns for fiscal years ended January 31, 1992 through 1996, are under examination by the Internal Revenue Service. On August 27, 1997, the Internal Revenue Service issued a Notice of Deficiency proposing increases to the amount of the Company's United States income taxes for fiscal years 1992 and 1993. On November 25, 1997, the Company filed a petition with the United States Tax Court to contest these alleged tax deficiencies. Management believes that adequate amounts have been provided for any adjustments that may ultimately result from these examinations.

Cash payments for income taxes were approximately \$33,272,000, \$13,605,000, and \$32,032,000 for fiscal years 1998, 1997, and 1996, respectively.

#### Note 4. Litigation Accrual

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In December 1994, the Company recorded a \$25.5 million litigation charge as the result of a judgment against the Company on a claim of trade secret misappropriation brought by Vermont Microsystems, Inc. ("VMI"). The Company appealed that judgment and, upon remand to the Federal District Court, a reduced judgment was entered against the Company in the amount of \$14.2 million plus interest. On February 23, 1998, the U.S. Court of Appeals for the Second Circuit reduced the judgment to \$7.8 million. Because the case is still subject to postjudgment motions and appeals, the Company has not reflected the reduction of damages in the accompanying consolidated financial statements.

The Company was required by statute to post collateral approximating the amount of the initial judgment plus accrued interest. In May 1997, the escrow account was reduced to \$17.3 million, with interest to accrue. At January 31, 1998, the Company's long-term marketable securities included a balance of \$18.0 million which is restricted as to its use until final adjudication of this matter.

#### Note 5. Commitments and Contingencies

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The Company leases office space and equipment under noncancelable lease agreements. The leases generally provide that the Company pay taxes, insurance, and maintenance expenses related to the leased assets. Future minimum lease payments for fiscal years ended January 31 are as follows: \$19.2 million in 1999; \$17.5 million in 2000; \$13.3 million in 2001; \$9.6 million in 2002; \$13.2 million in 2003; and \$17.8 million thereafter.

Rent expense was \$17,729,000, \$17,358,000, and \$16,992,000 in fiscal years 1998, 1997, and 1996, respectively.

The Company has a line of credit permitting short-term, unsecured borrowings of up to \$40 million, which may be used from time to time to facilitate short-term cash flow. There were no borrowings outstanding under this agreement at January 31, 1998, which expires in January 1999.

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

Note 6. Employee Benefit Plans

Stock option plans

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

Stock option activity is as follows:

(Shares in thousands)	Number of shares	Price per share		Weighted average price per share
Options outstanding at January 31, 1995	7,997	\$ 12.56 -	\$ 38.25	\$ 21.97
Granted	2,546	35.25 -	49.25	44.83
Exercised	(1,484)	12.56 -	30.50	19.19
Canceled	(368)	13.38 -	49.25	30.78
Options outstanding at January 31, 1996	8,691	13.38 -	49.25	28.75
Granted	5,271	0.01 -	42.00	29.99
Exercised	(651)	0.01 -	38.25	19.66
Canceled	(598)	16.25 -	49.25	36.98
Options outstanding at January 31, 1997	12,713	13.38 -	49.25	28.11
Granted	3,411	0.01 -	48.38	34.62
Assumed via acquisitions	306	0.34 -	36.40	23.72
Exercised	(2,304)	0.01 -	49.25	23.15
Canceled	(908)	13.38 -	49.25	33.22
Options outstanding at January 31, 1998	13,218	\$ 1.86 -	\$ 49.25	\$ 30.20
Options exercisable at January 31, 1998	5,174	\$ 1.86 -	\$ 49.25	\$ 28.83
Options available for grant at January 31, 1998	918			

The following table summarizes information about options outstanding at January 31, 1998.

Range of per share exercise prices	Outstanding options		
	Number of shares (in thousands)	weighted average contractual life (in years)	Weighted average exercise price
\$ 1.86 -- \$ 23.00	1,647	3.91	\$16.78
\$23.13 -- \$ 30.25	5,430	5.54	\$25.51
\$30.38 -- \$ 49.25	6,141	8.68	\$37.94
	13,218	6.80	\$30.20

The following table summarizes information about options outstanding and exercisable at January 31, 1998.

	Number of shares (in thousands)	Weighted average exercise price
Range of per share exercise prices		
\$ 1.86 -- \$ 23.00	1,577	\$ 16.58
\$23.13 -- \$ 30.25	2,034	\$ 27.29
\$30.38 -- \$ 49.25	1,563	\$ 43.18
	5,174	\$ 28.83

These options will expire if not exercised at specific dates ranging from February 1998 to January 2008. Prices for options exercised during the three-year period ended January 31, 1998, range from \$0.01 to \$49.25.

A total of 14.1 million shares of the Company's common stock have been reserved for future issuance under existing stock option programs.

#### Employee stock purchase plan

The Company has an employee stock purchase plan ("plan") for all employees meeting certain eligibility criteria. Under the plan, eligible employees may purchase shares of the Company's common stock, at their discretion up to 15 percent of their compensation subject to certain limitations, at not less than 85 percent of fair market value as defined in the plan. A total of 2,600,000 shares have been reserved for issuance under the plan. In fiscal years 1998, 1997, and 1996, shares totaling 490,000, 323,000, and 301,000, respectively, were issued under the plan at average prices of \$21.99, \$24.56, and \$24.01 per share. At January 31, 1998, a total of 301,000 shares were available for future issuance under the plan.

#### Pro forma information

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

Pro forma information regarding net income and net income per share is required by SFAS No. 123. This information is required to be determined as if the Company had accounted for its employee stock options (including shares issued under the Employee Stock Purchase Plan, collectively called "options") granted subsequent to January 31, 1995, under the fair value method of that statement. The fair value of options granted in 1998, 1997, and 1996 reported below has been estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	Employee stock options			Employee stock purchase plan		
	1998	1997	1996	1998	1997	1996
Expected life (in years)	2.6	2.7	2.5	0.5	0.5	0.5
Risk-free interest rate	6.1%	6.1%	5.8%	5.4%	5.5%	5.8%
Volatility	.52	.42	.40	.50	.45	.45
Dividend yield	0.6%	0.8%	0.8%	0.6%	0.8%	0.8%

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected volatility of the stock price. Because the Company's stock options have characteristics

significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of its options. The weighted average estimated fair value of employee stock options granted during fiscal years 1998, 1997, and 1996 was \$13.50, \$8.34, and \$12.76 per share, respectively. The weighted average estimated fair value of shares granted under the Employee Stock Purchase Plan during fiscal years 1998, 1997, and 1996 was \$7.17, \$8.01, and \$7.85, respectively.

For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma net income for fiscal years 1998, 1997, and 1996 was \$7,868,000, \$15,343,000, and \$77,952,000, respectively. Pro forma basic net income per share was \$0.17, \$0.34, and \$1.66 in fiscal years 1998, 1997, and 1996, respectively. In fiscal years 1998, 1997, and 1996, pro forma diluted net income per share was \$0.16, \$0.30, and \$1.52, respectively.

The effects on pro forma disclosures of applying SFAS No. 123 are not likely to be representative of the effects on pro forma disclosures of future years. Because SFAS No. 123 is applicable only to options granted subsequent to January 31, 1995, the pro forma effect will not be fully reflected until 1999.

#### Pretax savings plan

The Company has a pretax savings plan covering nearly all US employees that qualify under Section 401(k) of the Internal Revenue Code. Eligible employees may contribute up to 15 percent of their pretax salary, subject to certain limitations. The Company makes voluntary contributions and matches a portion of employee contributions. Company contributions, which may be terminated at the Company's discretion, were \$4,103,000, \$3,068,000, and \$2,442,000 in fiscal years 1998, 1997, and 1996, respectively.

The Company provides defined-contribution plans in certain foreign countries where required by statute. The Company's funding policy for foreign defined-contribution plans is consistent with the local requirements in each country. Company contributions to these plans during fiscal year 1998 were \$1,376,000. Company contributions to these plans in fiscal years 1997 and 1996 were not significant.

#### Note 7. Stockholders' Equity

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##### Preferred stock

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

##### Common stock repurchase program

During fiscal years 1998, 1997, and 1996, the Company repurchased and retired a total of 2,332,500, 1,659,500, and 2,671,000 shares of its common stock at average repurchase prices of \$38.39, \$32.44, and \$40.43, respectively, pursuant to an ongoing and systematic repurchase plan ("Systematic Plan") approved by the Company's Board of Directors to reduce the dilutive effect of common shares to be issued under the Company's employee stock plans. In December 1997, the Board of Directors authorized the purchase of an additional 4 million shares under the Systematic Plan.

In August 1996, the Company announced another stock repurchase program under which the Company may purchase up to 5 million shares of common stock in open market transactions as market and business conditions warrant--the "Supplemental Plan." In December 1997, the Board of Directors authorized the purchase of an additional 5 million shares under the Supplemental Plan. The Company may also utilize equity options as part of the Supplemental Plan. During fiscal years 1998 and 1997, the Company repurchased 1,000,000 and 557,500 shares in the open market at average per share repurchase prices of \$34.37 and \$24.09, respectively, and entered into the equity options described below.

In September 1996, the Company sold put warrants to an investment bank that entitle the holder of the warrants to sell 3 million shares of common stock to the Company at \$21.50 per share. Additionally, the Company purchased call options from the same independent third party that entitled the Company to buy 2 million shares of its common stock at \$25.50 per share. The premiums received with respect to the equity options totaled \$8.1 million and equaled the premiums paid. Consequently, there was no exchange of cash. At any given date, the amounts potentially subject to market risk are generally limited to the amount by which the per share price of the put warrants exceeds the market value of Autodesk's common stock. On January 31, 1997, the per share trading price of Autodesk's common stock was \$31.63 which exceeded the per share exercise price of the put warrants which was \$21.50. The Company exercised the call options, repurchasing 2,000,000 shares of its common stock during the third quarter of fiscal year 1998 for \$51 million. The put warrants expired unexercised in September 1997 and were reclassified from put warrants to stockholders' equity during the third quarter of fiscal year 1998.

In December 1997, the Company sold put warrants to an independent third party that entitled the holder of the warrants to sell 1.5 million shares of common stock to the Company at \$38.12 per share. Additionally, the Company purchased call options from the same independent third party that entitle 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 are generally limited to the amount by which the per share price of the put warrants exceeds the market value of Autodesk's common stock. On January 31, 1998, the per share trading price of Autodesk's common stock was \$38.63 which exceeded the per share exercise price of the put warrants which was \$38.12. The outstanding put warrants at January 31, 1998, permitted a net share settlement at the Company's option. As a result, the transaction did not result in a put warrant liability on the consolidated balance sheet.

#### Note 8. Quarterly Financial Information (Unaudited)

Summarized quarterly financial information for fiscal years 1998, 1997, and 1996 are noted below:

The quarterly information for Fiscal 1998 have been restated to reflect the adjustment described at Note 1.

1st Quarter 2nd Quarter 3rd Quarter 4th Quarter Fiscal Year  
As Reported As Reported As Reported As Reported As Reported

(in thousands, except per share data)

	1st Quarter As Reported	2nd Quarter As Reported	3rd Quarter As Reported	4th Quarter As Reported	Fiscal Year As Reported
Fiscal year 1998					
Net revenues	\$118,984	\$154,096	\$162,195	\$181,851	\$617,126
Gross margin	102,943	135,371	144,683	163,271	546,268
Income (loss) from operations	(53,796)	25,469	30,126	43,556	45,355
Net income (loss)	(52,745)	17,835	20,956	29,318	15,364
Basic net income (loss) per share	(1.15)	0.37	0.44	0.64	0.33
Diluted net income (loss) per share	(1.15)	0.34	0.41	0.60	0.31
	1st Quarter Restated	2nd Quarter Restated	3rd Quarter Restated	4th Quarter Restated	Fiscal Year Restated
Fiscal year 1998					
Net revenues	\$118,984	\$154,096	\$162,195	\$181,851	\$617,126
Gross margin	102,895	135,227	144,539	163,127	545,788
Income (loss) from operations	(18,488)	23,624	28,298	41,728	75,162
Net income (loss)	(17,437)	15,990	19,128	27,490	45,171
Basic net income (loss) per share	(0.38)	0.33	0.41	0.60	0.97
Diluted net income (loss) per share	(0.38)	0.31	0.37	0.56	0.91
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Fiscal Year
Fiscal year 1997					
Net revenues	\$136,281	\$128,745	\$116,647	\$115,020	\$496,693
Gross margin	118,989	112,123	101,427	99,937	432,476
Income from operations	28,125	17,123	7,502	7,067	59,817
Net income	19,060	10,645	5,873	5,993	41,571
Basic net income per share	0.41	0.23	0.13	0.13	0.91
Diluted net income per share	0.39	0.22	0.13	0.13	0.88
Fiscal year 1996					
Net revenues	\$138,658	\$140,686	\$128,537	\$126,286	\$534,167
Gross margin	121,373	123,324	112,419	110,239	467,355
Income from operations	38,408	38,897	28,046	23,676	129,027
Net income	25,977	26,299	19,207	16,305	87,788
Basic net income per share	0.55	0.56	0.41	0.35	1.86
Diluted net income per share	0.51	0.52	0.38	0.34	1.76

Note 9. Information by Geographic Area

Information regarding the Company's operations by geographic area at January 31, 1998, 1997, and 1996, and for the fiscal years then ended is as follows:

(In thousands)	Fiscal year ended January 31,		
	1998	1997	1996
<b>Revenues:</b>			
<b>The Americas</b>			
Customers in the United States	\$ 266,921	\$ 176,286	\$ 195,272
Customers in Asia Pacific	46,542	40,284	42,262
Customers in Canada	18,695	10,671	14,619
Other exports	18,014	13,420	11,103
Intercompany revenues	47,445	65,758	67,728
	397,617	306,419	330,984
<b>Europe</b>	208,340	189,082	211,480
<b>Asia Pacific</b>	73,846	79,887	72,148
Consolidating eliminations	(47,445)	(65,758)	(67,728)
	\$ 632,358	\$ 509,630	\$ 546,884
<b>Income (loss) from operations:</b>			
<b>The Americas</b>	\$ 17,991	\$ 22,734	\$ 63,843
<b>Europe</b>	51,220	32,909	53,696
<b>Asia Pacific</b>	5,951	4,174	11,488
	\$ 75,162	\$ 59,817	\$ 129,027
<b>Identifiable assets:</b>			
<b>The Americas</b>	\$ 363,365	\$ 329,171	\$ 306,795
<b>Europe</b>	287,470	302,183	250,268
<b>Asia Pacific</b>	72,472	72,543	73,426
Consolidating eliminations	(159,817)	(211,664)	(112,560)
	\$ 563,490	\$ 492,233	\$ 517,929

Intercompany revenues consist of royalty revenue payable by the Company's subsidiaries under software license agreements with the US parent company. At January 31, 1998, 1997, and 1996, total foreign net equity was \$247.2 million, \$161.2 million, and \$133.2 million, respectively.

Report of Ernst & Young LLP, Independent Auditors

The Board of Directors and Stockholders

Autodesk, Inc.

We have audited the accompanying consolidated balance sheets of Autodesk, Inc., as of January 31, 1998 and 1997, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended January 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Autodesk, Inc., at January 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 31, 1998, in conformity with generally accepted accounting principles.

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

/s/ Ernst & Young LLP

San Jose, California  
February 24, 1998, except for  
the second paragraph of  
Note 1, as to which the date is  
January 25, 1999

Directors, Executive Officers, and

Officers

Directors

Carol Bartz  
Chairman of the Board and Chief Executive Officer

Mark A. Bertelsen  
Senior Partner, Wilson, Sonsini, Goodrich & Rosati, Attorneys-at-Law

Crawford W. Beveridge  
Chief Executive Officer, Scottish Enterprise, an economic development company

J. Hallam Dawson  
Chairman, IDI Associates, a private investment bank

Paul S. Otellini  
Executive Vice President, General Manager, Intel Architecture Business Group

Mary Alice Taylor  
Corporate Executive Vice President of Global Operations and Technology, CitiCorp

Morton L. Topfer  
Vice Chairman, Dell Computer Corporation

Executive Officers

Carol Bartz  
Chairman of the Board and Chief Executive Officer

Eric Herr  
President and Chief Operating Officer

Dr. Joseph Astroth  
Vice President, GIS Market Group

Carl Bass  
Vice President, Engineering and Chief Technical Officer

Steve Cakebread  
Vice President  
Chief Financial Officer

James D'Arezzo  
Vice President, Corporate Marketing

Dominic Gallelo  
Vice President, Mechanical CAD Market Group

Stephen McMahon  
Vice President, Human Resources and Facilities

Tom Norring  
Vice President, Asia Pacific

Michelle Pharr  
Vice President, the Americas

Marcia Sterling  
Vice President, Business Development, and General Counsel

Godfrey Sullivan  
Vice President, Personal Solutions Group

Michael Sutton  
Vice President, Europe/Middle East/Africa

Officers

William Kredel  
Vice President and  
Chief Information Officer

David Oppenheimer  
Vice President, Finance

John Sanders  
Vice President,  
Worldwide Product Support

Michael Tabatabai  
Vice President, Worldwide Operations

Christine Tsingos  
Vice President and Treasurer

Eric Wagner  
Vice President, Software Development

## Corporate Information

### Market Information and Dividend Policy

#### Market Prices

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

	High	Low
-----		
Fiscal year 1998		
First quarter	\$ 36-3/8	\$ 28-1/4
Second quarter	\$ 42-7/8	\$ 34-9/16
Third quarter	\$ 51-1/8	\$ 30-1/2
Fourth quarter	\$ 42-1/8	\$ 32-1/4
Fiscal year 1997		
First quarter	\$ 44-1/4	\$ 29-3/4
Second quarter	\$ 42-3/4	\$ 20-1/2
Third quarter	\$ 27-1/2	\$ 18-1/2
Fourth quarter	\$ 35-3/8	\$ 21
Fiscal year 1996		
First quarter	\$ 44	\$ 33
Second quarter	\$ 50-1/4	\$ 34
Third quarter	\$ 53	\$ 33
Fourth quarter	\$ 39-1/2	\$ 27-3/4

#### Dividends

The Company paid quarterly dividends of \$0.06 per share in fiscal years 1998, 1997, and 1996. The Company currently intends to continue paying regular cash dividends on a quarterly basis.

#### Stockholders

As of April 21, 1998, the approximate number of common stockholders of record was 1,240.

#### Annual Meeting

The Company's Annual Meeting of Stockholders will be held at 2:00 pm on June 25, 1998, at Embassy Suites Hotel, 101 McInnis Parkway, San Rafael, California.

#### Form 10-K

A copy of the Company's Annual Report on Form 10-K for fiscal year 1998 filed with the Securities and Exchange Commission may be obtained without charge by sending a written request to Investor Relations, Autodesk, Inc., 111 McInnis Parkway, San Rafael, CA 94903. Information about Autodesk and its business, including the company's periodic filings with the Securities and Exchange Commission, may be obtained from Autodesk's World Wide Web site at [WWW.AUTODESK.COM](http://WWW.AUTODESK.COM).

Corporate Headquarters  
Autodesk, Inc.  
111 McInnis Parkway  
San Rafael, CA 94903  
USA

The Americas  
Autodesk, Inc.  
20400 Stevens Creek Boulevard  
Cupertino, CA 95014-2217  
USA

Asia Pacific  
Autodesk, Inc.  
20400 Stevens Creek Boulevard  
Cupertino, CA 95014-2217  
USA

Europe  
Autodesk (Europe) SA  
20, route de Pre-Bois  
Case Postale 766  
CH-1215 Geneva 15  
Switzerland

Legal Counsel  
Wilson, Sonsini, Goodrich & Rosati  
650 Page Mill Road  
Palo Alto, CA 94304  
USA

Transfer Agent  
Harris Trust & Savings Bank  
c/o Shareholder Services  
14th Floor  
311 West Monroe Street  
Chicago, IL 60606  
USA

Independent Auditors  
Ernst & Young LLP  
55 Almaden Boulevard  
San Jose, CA 95113  
USA

For More Information

For more information, please write Investor Relations, Autodesk, Inc., 111  
McInnis Parkway, San Rafael, CA 94903, phone us at 415-507-5000, or visit our  
World Wide Web sites at [WWW.AUTODESK.COM](http://WWW.AUTODESK.COM) and [WWW.KTX.COM](http://WWW.KTX.COM).

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## SUBSIDIARIES OF AUTODESK INC.

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

Name -----	Jurisdiction of Incorporation -----
Autodesk (Europe) S.A.	Switzerland
Autodesk AB	Sweden
Autodesk AG	Switzerland
Autodesk Asia Pte. Ltd.	Singapore
Autodesk Australia Pty. Ltd.	Australia
Autodesk B.V.	Netherlands
Autodesk Canada Inc.	Canada
Autodesk Development Africa (Pty) Ltd.	Republic of South Africa
Autodesk Development B.V.	Netherlands
Autodesk Development Canada, Ltd.	Canada
Autodesk Far East Ltd.	Hong Kong
Autodesk GesmbH	Austria
Autodesk GmbH	Germany
Autodesk International Ltd.	Barbados
Autodesk Ireland	Ireland
Autodesk Korea Ltd.	Korea
Autodesk Ltd.	United Kingdom
Autodesk Ltd. Japan	Japan
Autodesk Ltda	Brazil
Autodesk R	Russia-C.I.S.
Autodesk S.A.	Spain
Autodesk S.A.R.L	France
Autodesk S.p.A.	Italy
Autodesk Software ltda.	Portugal
Autodesk spol. s.r.o	Czechia
Autodesk, Taiwan Ltd.	Taiwan
Softdesk, Inc	New Hampshire
Softdesk International, Inc.	New Hampshire
DCA FSC, Inc	Virginia
Image Systems Technology, Inc.	New York
Foresight Resources Corporation	Missouri
Teleos Research	California

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	12-MOS JAN-31-1998	12-MOS JAN-31-1997	12-MOS JAN-31-1996	12-MOS JAN-31-1995	12-MOS JAN-31-1994
	FEB-01-1997	FEB-01-1996	FEB-01-1995	FEB-01-1994	FEB-01-1993
	JAN-31-1998	JAN-31-1997	JAN-31-1996	JAN-31-1995	JAN-31-1994
	100,399	96,089	0	0	0
	67,992	0	0	0	0
	7,136	0	0	0	0
	7,351	0	0	0	0
	307,702	0	0	0	0
	137,939	0	0	0	0
	98,800	0	0	0	0
	563,490	0	0	0	0
199,487	0	0	0	0	0
	0	0	0	0	0
	299,315	0	0	0	0
563,490	33,624	0	0	0	0
	0	0	0	0	0
	617,126	0	0	0	0
617,126	0	0	0	0	0
	71,338	0	0	0	0
	466,925	0	0	0	0
	0	0	0	0	0
	3,701	0	0	0	0
	159	0	0	0	0
	84,806	0	0	0	0
	39,635	0	0	0	0
45,171	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
	45,171	0	0	0	0
	0.97	0.91	1.86	1.20	1.30
	0.91	0.88	1.76	1.14	1.25

Certain information for the 12 months ended January 31, 1998 has been restated to reflect the adjustment described at Note 1 to the Company's consolidated financial statements.  
 For purposes of this exhibit, primary means basic.  
 Amounts have been restated to comply with the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per Share."