

AUTODESK, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Three months ended October 31,		Nine months ended October 31,	
	1997	1996	1997	1996
Revenues	\$166,324	\$119,735	\$446,391	\$391,542
Direct commissions	4,129	3,088	11,116	9,869
Net revenues	162,195	116,647	435,275	381,673
Costs and expenses:				
Cost of revenues	17,512	15,220	52,278	49,134
Marketing and sales	60,215	50,233	171,571	150,125
Research and development	33,050	23,662	91,085	69,471
General and administrative	21,292	18,521	60,455	55,455
Charges for acquired in-process research and development	-	1,509	58,087	4,738
	132,069	109,145	433,476	328,923
Income from operations	30,126	7,502	1,799	52,750
Interest and other income, net	2,617	1,604	7,391	4,471
Income before income taxes	32,743	9,106	9,190	57,221
Provision for income taxes	11,787	3,233	23,144	21,643
Net income (loss)	\$ 20,956	\$ 5,873	\$(13,954)	\$ 35,578
Net income (loss) per share	\$0.41	\$0.13	\$(0.30)	\$0.75
Shares used in computing net income (loss) per share	51,480	45,410	47,050	47,480

See accompanying notes.

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

	October 31, 1997	January 31, 1997
	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 43,024	\$ 64,814
Marketable securities	169,956	117,971
Accounts receivable, net	78,345	68,577
Inventories	6,397	7,340
Deferred income taxes	37,978	35,616
Prepaid expenses and other current assets	15,967	16,210
	-----	-----
Total current assets	351,667	310,528
	-----	-----
Marketable securities, including a restricted balance of \$17,300 at October 31, 1997 and \$28,000 at January 31, 1997	105,013	103,523
Computer equipment, furniture, and leasehold improvements, at cost:		
Computer equipment and furniture	115,368	103,903
Leasehold improvements	20,319	17,818
Less accumulated depreciation	(94,040)	(77,671)
	-----	-----
Net computer equipment, furniture, and leasehold improvements	41,647	44,050
Purchased technologies and capitalized software	33,998	15,916
Other assets	36,641	18,216
	-----	-----
	\$568,966	\$492,233
	=====	=====

See accompanying notes.

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

	October 31, 1997	January 31, 1997
	----- (Unaudited)	-----
Current liabilities:		
Accounts payable	\$ 27,984	\$ 24,557
Accrued compensation	25,271	18,099
Accrued income taxes	76,363	75,061
Other accrued liabilities	68,133	32,454
	-----	-----
Total current liabilities	197,751	150,171
	-----	-----
Deferred income taxes	1,870	2,974
Litigation accrual	29,328	29,328
Other liabilities	1,796	1,646
Put warrants	-	64,500
Stockholders' equity:		
Common stock	304,153	147,091
Retained earnings	42,598	106,587
Foreign currency translation adjustment	(8,530)	(10,064)
	-----	-----
Total stockholders' equity	338,221	243,614
	-----	-----
	\$568,966	\$492,233
	=====	=====

See accompanying notes.

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

	Nine months ended October 31,	
	1997	1996
	-----	-----
Operating activities		
Net income (loss)	\$ (13,954)	\$ 35,578
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Charges for acquired in-process research and development	58,087	4,738
Depreciation and amortization	31,540	24,998
Changes in operating assets and liabilities, net of business combinations	26,344	6,960
	-----	-----
Net cash provided by operating activities	102,017	72,274
	-----	-----
Investing activities		
Net purchases of marketable securities	(45,580)	(23,010)
Business combinations, net of cash acquired	(5,766)	(9,653)
Purchases of computer equipment, furniture, and leasehold improvements	(10,520)	(15,304)
Purchases of software technologies, capitalization of software costs and other	(11,579)	(8,338)
	-----	-----
Net cash used in investing activities	(73,445)	(56,305)
	-----	-----
Financing activities		
Proceeds from issuance of common stock	74,327	17,643
Repurchase of common stock	(116,132)	(67,045)
Dividends paid	(8,557)	(8,113)
	-----	-----
Net cash used in financing activities	(50,362)	(57,515)
	-----	-----
Net decrease in cash and cash equivalents	(21,790)	(41,546)
Cash and cash equivalents at beginning of year	64,814	129,305
	-----	-----
Cash and cash equivalents at end of quarter	\$ 43,024	\$ 87,759
	=====	=====
Supplemental disclosure of noncash investing and financing activities:		
Common stock issued in connection with the acquisition of Softdesk, Inc.	\$ 89,600	\$ -
	=====	=====

See accompanying notes.

AUTODESK, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

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The condensed consolidated financial statements at October 31, 1997 and for the three- and nine-month periods then ended are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The condensed consolidated financial statements at October 31, 1997 should be read in conjunction with the consolidated financial statements and notes thereto, together with management's discussion and analysis of financial condition and results of operations, contained in the Company's Annual Report to Stockholders incorporated by reference in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1997. The results of operations for the three and nine months ended October 31, 1997 are not necessarily indicative of the results for the entire fiscal year ending January 31, 1998.

2. Recently Issued Accounting Standards

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In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS 128"). SFAS 128 specifies the computation, presentation and disclosure requirements for earnings per share for entities with publicly held common stock or potential common stock. This statement is effective for financial statements issued for periods ending after December 15, 1997, including interim periods. Earlier application of this statement is not permitted.

Under the new requirements, the Company will be required to present both basic net income per share and diluted net income per share. Basic net income per share will exclude dilutive common stock equivalents. Diluted net income per share will include common stock equivalents. If SFAS 128 had been applied for the three month period ended October 31, 1997, basic net income per share would have been approximately \$0.03 higher than net income per share as currently reported. The application of this pronouncement is not expected to impact the calculation of basic net loss per share for the nine months ended October 31, 1997 but would have increased basic net income per share for the nine months ended October 31, 1996 by \$0.03. Due to the insignificant number of common stock equivalents outstanding for the quarter ended October 31, 1996, the calculation of basic net income per share for the three-month period ended October 31, 1996 is not expected to have a material impact on currently reported net income per share. The impact of SFAS 128 on the calculation of diluted net income (loss) per share is not expected to be material for all periods reported.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and displaying comprehensive income and its components in a full set of general-purpose financial statements and is required to be adopted by the Company beginning in its fiscal year 1999. Additionally, 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 Accounting Standards Executive Committee has issued Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2"), which supersedes SOP 91-1, the former literature on software revenue recognition. This Statement will be effective beginning in fiscal year 1999. The Company believes it is in compliance with the provisions of SOP 97-2, and its adoption is not expected to have a material impact on the consolidated financial position or results of operations of the Company.

3. Derivatives

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In January 1997, the Securities and Exchange Commission issued new rules requiring expanded disclosure for "market risk-sensitive" financial instruments. These rules will be fully effective for the Company's annual financial statements for the year ending January 31, 1999. As required for this interim filing, specific information on the Company's accounting policies with regard to activities in derivative financial instruments is provided below.

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 days 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.

In conjunction with one of the Company's stock repurchase programs, the Company may, from time to time, enter into additional put warrant and call option arrangements. As with the current put warrant contracts further discussed in Note 5 below, the Company's maximum potential repurchase obligation under the put warrants will be reclassified from stockholders' equity to put warrants on the consolidated balance sheet. Under these arrangements, the Company can typically settle with a stock or a cash settlement equal to the difference between the exercise price and market value at the date of exercise.

4. Business Combinations

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On March 31, 1997, the Company issued approximately 2.9 million shares of its common stock for all outstanding shares of Softdesk, Inc. ("Softdesk"), a leading supplier of AutoCAD-based application software for the architecture, engineering, and construction market, and exchanged Autodesk options for outstanding Softdesk options. Based upon the value of Autodesk stock and options exchanged, the transaction was valued at approximately \$94 million for the Softdesk stockholders. This transaction has been accounted for using the purchase method. The operating results of Softdesk, which have not been material in relation to those of the Company, have been included in the accompanying condensed consolidated financial statements from the acquisition date.

To assist in the allocation of the purchase price, an independent valuation of Softdesk was completed. Approximately \$55.1 million of the Softdesk purchase price represented the value of in-process research and development that had not yet reached technological feasibility and had no alternative future use. This amount was charged to operations in the first quarter of fiscal year 1998.

5. Common Stock Repurchase Programs

As further discussed in the Company's fiscal year 1997 Annual Report on Form 10-K, the Company sold put warrants to an independent third party in September 1996 that entitled the holder of the warrants to sell 3 million shares of the Company's 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. The Company exercised the call options, repurchasing two million shares of its common stock during the third quarter for \$51 million. The put warrants, expired in September 1997 and were reclassified from put warrants to stockholders' equity during the third quarter of fiscal year 1998. During the quarter ended October 31, 1997, the Company repurchased an additional 610,000 shares of its common stock for \$26.9 million pursuant to an ongoing and systematic repurchase program approved by the Company's Board of Directors.

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 that entitle the Company to buy 1 million shares at \$39.88 per share. The put warrants and call options expire in March 1998. 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 amount related to the Company's maximum potential repurchase obligation under the put warrants will be reclassified from stockholders' equity to put warrants. The Company has the right to settle the put warrants with stock or cash equal to the difference between the exercise price and market value at the date of exercise.

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

THE DISCUSSION IN "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" CONTAINS TREND ANALYSES AND OTHER FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933 AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934. ALL STATEMENTS, TREND ANALYSES AND OTHER INFORMATION CONTAINED HEREIN RELATIVE TO MARKETS FOR AUTODESK'S PRODUCTS AND TRENDS IN REVENUE, AS WELL AS OTHER STATEMENTS INCLUDING SUCH WORDS AS "ANTICIPATE," "BELIEVE," "PLAN," "ESTIMATE," "EXPECT," "GOAL," AND "INTEND" AND OTHER SIMILAR EXPRESSIONS CONSTITUTE FORWARD-LOOKING STATEMENTS. THESE FORWARD-LOOKING STATEMENTS ARE SUBJECT TO BUSINESS AND ECONOMIC RISKS, AND AUTODESK'S ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS AS A RESULT OF THE FACTORS SET FORTH ELSEWHERE HEREIN, INCLUDING "CERTAIN RISK FACTORS WHICH MAY IMPACT FUTURE OPERATING RESULTS," PAGE 13, AS WELL AS FACTORS SET FORTH IN AUTODESK'S ANNUAL REPORT ON FORM 10-K.

RESULTS OF OPERATIONS

Three Months Ended October 31, 1997 and 1996

Net revenues. The Company's third quarter net revenues of \$162.2 million increased 39 percent from the third quarter of the prior fiscal year. The Company achieved significant net revenue growth in all geographic sectors compared to the corresponding period in the prior fiscal year. The Company recorded net revenues in the Americas of \$78.1 million, a 69 percent increase from the same period in the prior fiscal year, while revenues in Europe and Asia/Pacific of \$52.4 million and \$31.7 million increased 20 percent and 19 percent, respectively. This revenue growth resulted principally from higher sales of AutoCAD and AutoCAD updates. The most current version of AutoCAD, Release 14, was introduced in the second quarter of the current fiscal year. Also contributing to the higher revenues were new and enhanced products such as AutoCAD Map, Autodesk World, 3D Studio VIZ, as well as incremental revenues associated with the March 1997 acquisition of Softdesk, Inc. ("Softdesk"), a leading supplier of AutoCAD-based software for the architecture, engineering, and construction ("AEC") market. Sales of AutoCAD and AutoCAD updates accounted for approximately 72 percent and 68 percent of the Company's consolidated net revenues in the third quarter of fiscal years 1998 and 1997, respectively. The stronger value of the US dollar, relative to certain international currencies, primarily the Japanese yen, the German mark and the French franc, negatively impacted net revenues in the third quarter of the current fiscal year by \$7.6 million when compared to the same period in the prior fiscal year. International sales, including exports from the U.S., accounted for approximately 52 percent of the Company's revenues in the third quarter of fiscal year 1998 as compared to 63 percent in the same period of the prior fiscal year.

The Company derives a substantial portion of its revenues from sales of AutoCAD and AutoCAD updates. As such, any factors adversely affecting sales of AutoCAD and AutoCAD updates, including customer acceptance, product performance, compatibility with hardware equipment, and interoperability problems with products designed to run in conjunction with AutoCAD Release 14, could result in damage to the Autodesk and AutoCAD brand names, and could have a material adverse effect on the Company's business and consolidated results of operations. In addition, recent economic events in Asia, including depreciation of certain Asian currencies, failures at financial institutions, stock market declines, and reduction in planned capital investment at key enterprises, may adversely impact the Company's revenues in Asian markets.

Product returns, consisting principally of stock rotation, are recorded as a reduction of revenues and represented approximately 6 percent and 8 percent of consolidated revenues in the third quarter of fiscal years 1998 and 1997, respectively. Fiscal year 1997 product returns were impacted by product rotation resulting from performance issues with AutoCAD Release 13 and transition and update cycles related to the Company's various software products. Although product returns, comparing the third quarter of fiscal 1998 to the same period in the prior year, decreased as a percentage of consolidated revenues, management anticipates that product returns in future periods will continue to be impacted by product update cycles, new product releases, and software quality.

Cost of revenues. When expressed as a percentage of net revenues, cost of revenues decreased approximately 2 percent in the third quarter of fiscal year 1998 as compared to the same period of the prior fiscal year. This improvement resulted from efficiencies in production and distribution activities, management's continued focus on managing the costs of materials, and the mix of product sales. Cost of revenues as a percentage of net revenues has been and may continue to 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 were 37 percent and 43 percent of net revenues in the third quarter of fiscal years 1998 and 1997, respectively. Actual spending increased approximately 20 percent as a result of higher employee costs, including increased variable compensation associated with higher revenues, and higher costs to support the launch of new and enhanced products from the Company's market groups, including 3D Studio MAX Release 2.0 and AutoCAD LT 97. The Company expects to continue its emphasis on marketing and sales activities in the future to promote Autodesk's competitive position and to support marketing and sales of its products. Accordingly, the Company expects marketing and sales expenses to continue to be significant, both in absolute dollars and as a percentage of net revenues.

Research and development. Research and development expenses represented 20 percent of net revenues in the third quarter of both fiscal years 1998 and 1997. Actual research and development spending increased by 40 percent from the same period in the prior fiscal year due to the addition of software engineers, expenses associated with the development and translation of new products, and incremental expenses associated with acquisitions in the last half of fiscal year 1997 and the March 1997 acquisition of Softdesk. The Company anticipates that research and development expenses will increase in future periods as a result of product development efforts by the Company's market groups and incremental growth in the number of technical personnel resulting from recent acquisitions. 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 decreased to 13 percent of net revenues in the third quarter of fiscal year 1998 from 16 percent of net revenues in the third quarter of the prior fiscal year. In absolute dollar terms, general and administrative expenses increased 15 percent from the same period of the prior fiscal year, resulting primarily from increased employee-related expenses and amortization expense associated with intangible assets recorded in connection with the acquisition of Softdesk. The Company currently expects that general and administrative expenses will increase in future periods to support spending on infrastructure, including continued investment in Autodesk's worldwide information systems.

Interest and other income. Interest and other income increased \$1.0 million or 63 percent comparing the third quarter of fiscal year 1997 to the third quarter of fiscal year 1998. The increase in interest income was due primarily to higher average balances of cash, cash equivalents, and marketable securities.

Provision for income taxes. The Company's effective income tax rate was 36.0 percent in the third quarter of fiscal year 1998 compared to 35.5 percent in the same quarter of the prior fiscal year. The increase in the effective income tax rate in fiscal year 1998 was due to the acquisition of certain intangible assets during the year, the amortization of such assets not being deductible for tax purposes, and a change in the geographic mix of operations resulting from the acquisition of Softdesk.

On August 27, 1997, the Internal Revenue Service ("IRS") issued a Notice of Deficiency proposing increases to the amount of the Company's federal income taxes for fiscal years 1992 and 1993. On November 25, 1997, the Company filed a petition with the United States Tax Court to contest these alleged tax deficiencies. Resolution of these alleged tax deficiencies is not expected to have a material adverse impact on the Company's consolidated results of operations or its financial position.

Nine Months Ended October 31, 1997 and 1996

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Net revenues. Autodesk's net revenues for the nine months ended October 31, 1997 were \$435.3 million, which represented a 14 percent increase from the same period of the prior fiscal year. The increase resulted principally from strong initial demand for new and update versions of AutoCAD Release 14 software and increased revenues from the Company's geographic information system ("GIS") and AEC product offerings.

Cost of revenues. Cost of revenues as a percentage of net revenues for the nine months ended October 31, 1997 was 12 percent of net revenues, a one percent decrease from the same period in the prior fiscal year. Cost of revenues as a percentage of net revenues has been and may continue to 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 for the nine months ended October 31, 1997 were 39 percent of net revenues, consistent with the same period of the prior year. Actual spending for the period increased 14 percent as a result of higher employee costs as well as increased marketing and sales costs associated with the launch of AutoCAD Release 14 and other new and enhanced product offerings.

Research and development. Research and development expenses as a percentage of net revenues for the nine months ended October 31, 1997 increased to 21 percent from 18 percent for the same period in the prior fiscal year. Actual spending, including capitalized software costs of \$2.2 million recorded during the first half of fiscal year 1998, increased 34 percent as compared to the same period in the prior fiscal year. The increase is due primarily to the addition of software engineers, expenses associated with the development and translation of new products, and incremental research and development personnel expenses associated with fiscal year 1997 acquisitions and the March 1997 business combination with Softdesk.

General and administrative. General and administrative expenses decreased 1 percent to 14 percent of net revenues for the nine months ended October 31, 1997, when compared to the same period of the prior fiscal year. In absolute dollar terms, actual spending increased 9 percent from the same period of the prior fiscal year, primarily due to increased employee-related expenses as well as amortization expense associated with intangible assets recorded in connection with the Softdesk merger.

Charge for acquired in-process research and development. On March 31, 1997, the Company exchanged 2.9 million shares of its common stock for all of the outstanding stock of Softdesk. This transaction was accounted for using the purchase method of accounting with the purchase price being principally allocated to capitalized software, purchased technologies, and intangible assets. Approximately \$55.1 million of the total purchase price represented the value of in-process research and development that had not yet reached technological feasibility and had no alternative future use and, as such, was recorded as a charge for acquired in-process research and development. The Company also recorded an additional \$3.0 million charge for acquired in-process research and development during the nine months ended October 31, 1997 which represented technology acquired from another third party. During the nine months ended October 31, 1996, the Company recorded a charge of \$3.2 million for acquired in-process research and development associated with the acquisition of Teleos Research and a \$1.5 million charge related to in-process research and development associated with the purchase of certain assets of Argus Technologies, Inc.

Interest and other income. Interest and other income for the nine months ended October 31, 1997 was \$7.4 million compared to \$4.5 million for the same period in the prior fiscal year. The increase was due to higher interest income related to higher average cash, cash equivalents, and marketable securities balances in the current fiscal year.

Provision for income taxes. The Company's effective income tax rate, excluding the one-time charges for acquired in-process research and development associated with the Softdesk merger, was 36.0 percent for the nine months ended October 31, 1997. The Company's effective income tax rate, excluding the one-time charges for acquired in-process research and development associated with the Teleos acquisition, was 35.5 percent for the nine months ended October 31, 1996. The increase in the effective income tax rate in fiscal year 1998 was due to the acquisition of certain intangible assets during the year, the amortization of such assets not being deductible for tax purposes, and a change in the geographic mix of operations resulting from the acquisition of Softdesk.

CERTAIN RISK FACTORS WHICH MAY IMPACT FUTURE OPERATING RESULTS

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

Fluctuations in quarterly operating results. From time to time, the Company experiences fluctuations in its quarterly operations as a result of periodic release cycles, competitive factors and general economic conditions among other things. In addition, the Company has experienced fluctuations in operating results in interim periods in certain geographic regions due to seasonality. In particular, the Company's operating results in Europe during the third fiscal quarter are usually impacted by a slow summer period while the Asia/Pacific operations typically experience seasonal slowing in the third and fourth fiscal quarters.

The Company typically receives and fulfills a majority of its orders within a particular quarter, with these orders frequently concentrated in the last weeks or days of a fiscal quarter. As a result, the Company may not learn of revenue shortfalls until late in a fiscal quarter. Additionally, the Company's operating expenses are based in part on its expectations of 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.

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 complex and, despite extensive testing and quality control, may contain errors or defects ("bugs"), especially when first introduced. There can be no assurance that defects or errors will not be discovered in 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. The discovery of product defects could 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 design software products could also have a negative impact on the Company's business and consolidated results of operations.

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 has an exclusive license for use of the software developed by third parties. Because talented development personnel are in high demand, there can be no assurance that independent developers, including those who have developed products for the Company in the past, will be able to provide development support to 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.

International revenues. The Company anticipates that international revenues will continue to account for a significant portion of its consolidated revenues. Risks inherent in the Company's international sales include the following: the impact of fluctuating exchange rates between the US dollar and foreign currencies in markets where Autodesk does business; unexpected changes in regulatory practices and tariffs; difficulties in staffing and managing foreign operations; longer collection cycles; potential changes in tax laws; and greater difficulty in protecting intellectual property. During the first nine months of 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, the German mark and the French franc. The Company's international results may also be impacted by changes in the general economic and political conditions in these foreign markets. Specifically, the Company's international revenues may be directly impacted by the economic volatility currently experienced in certain Asia/Pacific countries. There can be no assurance that these and other factors will not have a material adverse effect on the Company's future international sales and consequently, on the Company's business and consolidated results of operations.

Dependence on distribution channels. The Company sells its software products primarily to distributors and dealers (value-added resellers, or "VARs"). Autodesk's ability to effectively distribute 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. The loss of or a significant reduction in business with any one of the Company's major international distributors or large US dealers could have a material adverse effect on the Company's business and consolidated results of operations in future periods.

Product returns. With the exception of certain European distributors, agreements with the Company's VARs do not contain specific product-return privileges. However, 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 product returns both in absolute dollars and as a percentage of consolidated revenues during the first nine months of fiscal year 1998 as compared to the same period in the prior fiscal year, management anticipates that product returns in future periods will continue to be impacted by product update cycles, new product releases, and software quality.

Autodesk establishes 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 market grows and the functionality of products in different market segments overlap. There can be no assurance that infringement or invalidity claims (or claims for indemnification resulting from infringement claims) will not be asserted against the Company or that any such assertions will not have a material adverse effect on its business. Any such claims, whether with or without merit, could be time-consuming, result in costly litigation and diversion of resources, cause product shipment delays, or require the Company to enter into royalty or licensing agreements. Such royalty or license agreements, if required, may not be available on acceptable terms, if at all, which could have a material adverse effect on the Company's business and consolidated results of operations.

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

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

The Company consummated several acquisitions in fiscal year 1997, including acquisitions of Teleos Research, Argus Technologies, Inc., and Creative Imaging Technologies, Inc. In the first quarter of fiscal year 1998, Autodesk acquired Softdesk. The Company is integrating the operations acquired in the Softdesk merger with its own. There can be no assurance that the anticipated benefits of the Softdesk merger or other business combinations completed in fiscal year 1997 or 1998 will be realized. The Softdesk merger entails a number of risks, including managing a larger and more geographically disparate business. If Autodesk is unsuccessful in integrating and managing the Softdesk business and the businesses of other recently acquired entities, the Company's business and consolidated results of operations in future periods could be adversely affected.

LIQUIDITY AND CAPITAL RESOURCES

Working capital was \$153.9 million at October 31, 1997, compared to \$160.4 million at January 31, 1997. Cash, cash equivalents, and marketable securities, which consist primarily of high-quality municipal bonds, tax-advantaged money market instruments and US treasury notes, totaled \$318.0 million at October 31, 1997, compared to \$286.3 million at January 31, 1997. The \$31.7 million increase in cash, cash equivalents, and marketable securities was due primarily to cash generated from operations (\$102.0 million) and cash proceeds from the issuance of shares through employee stock option and stock purchase programs (\$74.3 million). This increase was partially offset by cash used to repurchase shares of the Company's common stock under its repurchase programs (\$116.1 million); to purchase software technologies and capitalize software costs (\$11.6 million); to purchase computer equipment, furniture, and leasehold improvements (\$10.5 million); and to pay dividends on the Company's common stock (\$8.6 million).

The Company has an unsecured \$40 million bank line of credit that may be used from time to time to facilitate short-term cash flow. At October 31, 1997, there were no borrowings outstanding under this credit agreement, which expires in January 1999.

The Company's principal commitments at October 31, 1997 consisted of obligations under operating leases for facilities.

Purchased technologies increased \$18.1 million from January 31, 1997 to October 31, 1997. The increase is largely due to the acquisition of the rights to specific three-dimensional modeling, animation and design software, which was previously licensed and subject to royalty payments. This transaction is not expected to have a material impact on results of operations for current or future periods.

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 cash requirements for fiscal year 1998.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

Additionally, reference is made to the Form 10-Q filed with the Securities and Exchange Commission for the period ended April 30, 1997.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the quarter ended October 31, 1997.

SIGNATURES

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

DATED: December 12, 1997

AUTODESK, INC.
(Registrant)

/S/ CAROL A. BARTZ

Carol A. Bartz
Chairman and Chief Executive Officer

/S/ STEVE CAKEBREAD

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

9-MOS

JAN-31-1998	
OCT-31-1997	
	43,024
	169,956
	85,872
	7,527
	6,397
351,667	
	135,687
	94,040
568,966	
197,751	
	0
0	
	0
	304,153
	34,068
568,966	
	435,275
435,275	
	52,278
	380,058
	0
	1,140
	0
	9,190
	23,144
(13,954)	
	0
	0
	0
	(13,954)
	(.30)
	0