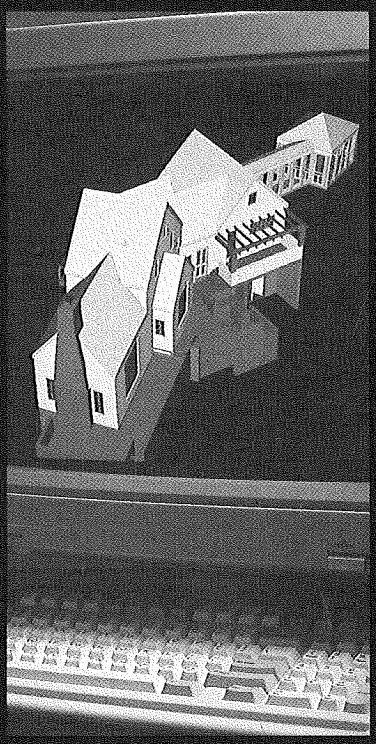
ANNUAL REPORT 1989

AUTODESK, INC.

Autodesk, Inc. is the world's leading supplier of computer-aided design (CAD) software products for personal computers and workstations. Since its inception in 1982, the Company has introduced products which support the design needs of a wide variety of professionals including engineers, architects, designers, manufacturers, facility planners, surveyors, and educators.

Autodesk's commitment to open architecture software allows users to customize the software to meet their individual needs. The Company's DXF™ file transfer format has become a de facto industry standard that is recognized, specified, and implemented across a wide range of industries and applications.



Autodesk software is available across all industry-leading personal computer and workstation operating environments (including MS-DOS,® Sun UNIX,® Apollo AEGIS,® DEC VMS,® Apple Macintosh,® and, in the future, OS/2™ and Xenix®). And because Autodesk software is completely platform independent, customers can move drawing files on floppy disks from one computer to another—with complete confidence in file compatibility.

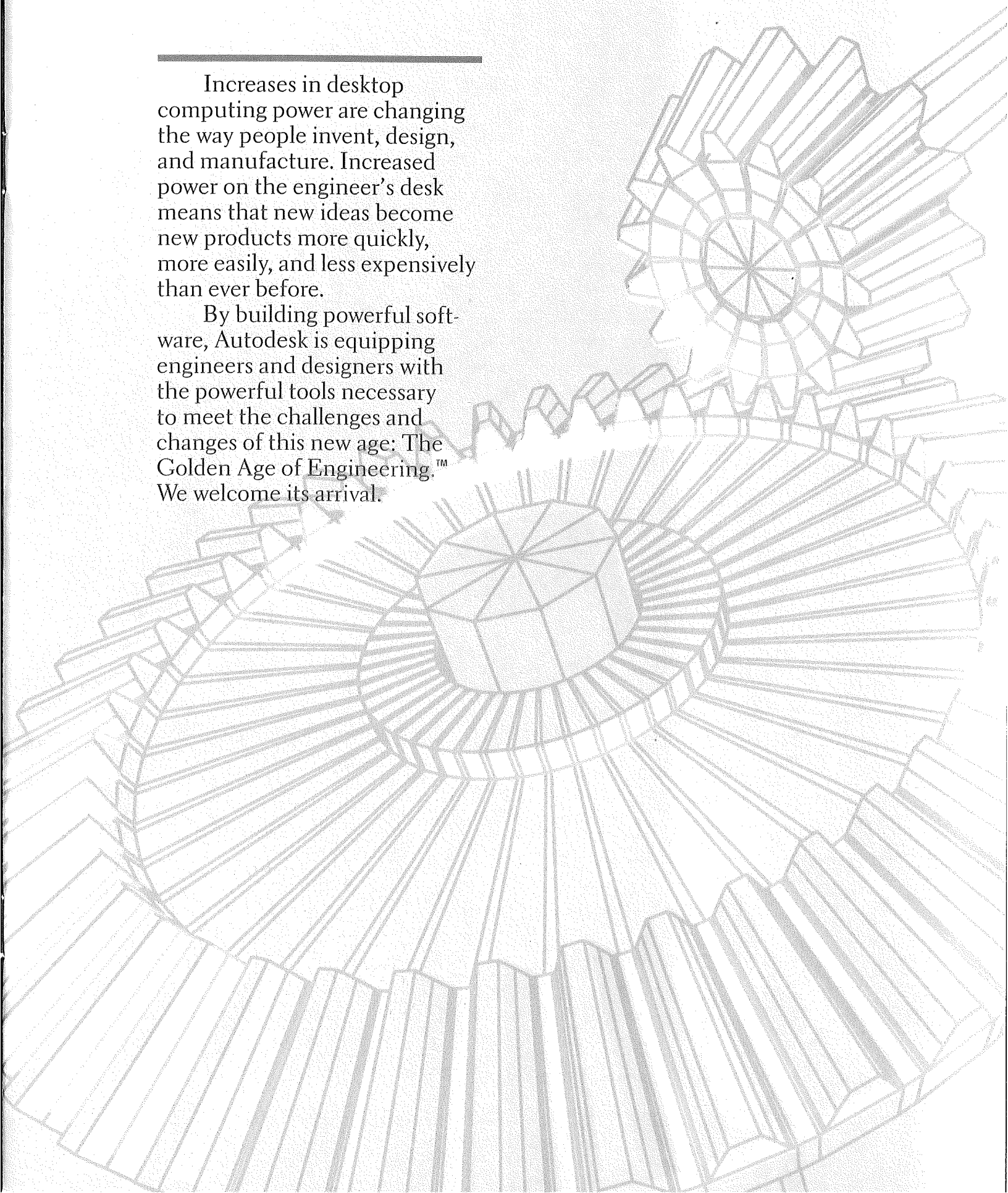
AutoCAD® is the de facto standard for the personal design and engineering workstation. To date, AutoCAD is sold in 64 countries and in 11 different languages: English, Czech, Danish, French, German, Italian, Japanese, Norwegian, Russian, Spanish, and Swedish.

Selected Financial Data

Fiscal Year	1989	1988	1987	1986	1985
		(in thousands except for per share data)			
Net revenues	$117,302	$79,257	$52,382	$29,531	$9,874
Gross profit	$102,795	$68,705	$44,518	$24,949	$8,360
Operating expenses	$55,878	$37,496	$22,880	$12,556	$5,542
Provision for income taxes	$21,470	$14,506	$11,305	$6,490	$1,255
Net income	$32,695	$20,541	$11,620	$6,521	$1,626
Common and common equivalent shares	24,140	23,180	21,030	18,990	16,500
Per share data:					
Net income	$1.35	$0.89	$0.55	$0.34	$0.10
Book value	$6.15	$4.82	$1.65	$1.05	$0.16
Total assets	$169,893	$125,451	$40,347	$24,683	$4,899
Debt	$498	$149	$95	$162	—
Shareholders' equity	$147,734	$114,765	$33,982	$21,171	$2,004

Increases in desktop computing power are changing the way people invent, design, and manufacture. Increased power on the engineer's desk means that new ideas become new products more quickly, more easily, and less expensively than ever before.

By building powerful software, Autodesk is equipping engineers and designers with the powerful tools necessary to meet the challenges and changes of this new age: The Golden Age of Engineering.™ We welcome its arrival.



Autodesk was founded on a vision: to create sophisticated applications software for the rapidly expanding personal computer market and to take advantage of the increases in computer power that were certain to take place. Although many computer analysts were skeptical about market opportunities for PC CAD in a mainframe dominated arena, Autodesk's pioneering, market-driven efforts paid off. The flagship product, AutoCAD, has enjoyed success beyond that achieved by any other CAD product, and it has helped shape a new future for desktop computing.

Today, the power of yesterday's mainframes is available on every engineer's desk, hardware is doubling in performance every 18 months, and AutoCAD is the recognized standard for the personal design and engineering workstation.

Had Autodesk followed the conventional wisdom of the day (locking up isolated markets with turnkey solutions based on proprietary hardware), Autodesk might well have locked itself into obsolescence. Instead, Autodesk adopted a hardware-independent strategy that allowed its software to run on a multitude of hardware platforms, in many different operating environments. At the same time, Autodesk encouraged others to build businesses based on Autodesk products.

New opportunities are available because of Autodesk products. Many of our customers and independent hardware and software vendors have built their own successes on the success of AutoCAD. We are opening new avenues for the expression of the designer's creativity.

The Autodesk product family has grown to include a full range of design tools that complement one another and provide desktop access to sophisticated design capabilities.

AutoCAD

AutoCAD is the de facto industry standard design and drafting software package for desktop computers and workstations. Its comprehensive drawing and editing commands, sophisticated 3-D design features, and Advanced User Interface™ allow design professionals to produce and revise drawings with ease.

AutoLISP,® the high-level programming language embedded in AutoCAD, gives users a powerful means for customizing menus, commands, and operating environments for a wide range of design needs. Third-party developers have used AutoLISP, together with AutoCAD's open architecture, to create more than 700 "off-the-shelf" programs that tailor AutoCAD for specific applications.

The Autodesk Device Interface (ADI™) specification enables computer peripheral manufacturers to create custom drivers that allow their devices to work with AutoCAD. Hundreds of companies have used ADI to develop device drivers for a wide selection of displays, digitizers, plotters, and printers.

AutoShade

AutoShade is a color rendering package that turns three-dimensional AutoCAD wireframe drawings into realistic renderings. AutoShade enhances AutoCAD drawings by adding perspective, shading, and specular reflection, creating lifelike three-dimensional images.

AutoCAD AEC Architectural

AutoCAD AEC Architectural adapts AutoCAD to the needs of design professionals in architecture and related fields. It streamlines the most time-consuming part of an architect's job: producing contract documents and working drawings. The package includes an extensive symbol library in template form that provides standard structural, plumbing, and electrical symbols.

AutoCAD AEC Mechanical

AutoCAD AEC Mechanical tailors AutoCAD to the needs of engineers who design mechanical building systems. It includes an extensive library of industry-standard symbols in template form that lets design engineers create complete layouts for plumbing, heating, ventilation, air conditioning, and fire protection systems.

AutoFlix

AutoFlix is a graphics animation program that combines AutoShade renderings, AutoCAD slides, or AutoSketch slides into on-screen movies and interactive presentations.

AutoSketch

AutoSketch is a low-cost, precision drawing program for personal computers that is fast, accurate, and remarkably easy to use. AutoSketch is ideal for a wide range of drawing applications, including business graphics, architectural drawings, line art for desktop publishing, and technical illustrations.

AutoSolid™

AutoSolid is a sophisticated, solid modeling software package for standard desktop computers and workstations. It allows design engineers to conceive and analyze mechanical parts and systems before building physical prototypes.

"The cost of AutoCAD is insignificant in relation to what it allows us to accomplish. It gives us the competitive edge we need to survive."

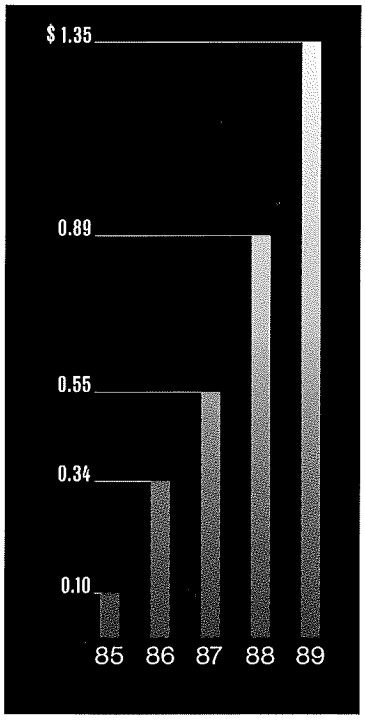
As the name implies, Du-All Precision Machining produces a wide range of components and assemblies. The Fremont, California, manufacturing company supplies finished parts for everything from computers and aircraft to medical equipment.

The common link in all of the products is that they must be machined to very exacting specifications and supplied in a highly competitive environment. At Du-All, the installation of AutoCAD has allowed the company to streamline design and production without sacrificing quality.

Tom McCarthy, president and owner of Du-All, was personally involved in the decision to bring AutoCAD into the company. "And, without doubt," he says, "it has paid off.

"Years ago," explains McCarthy, "a customer who sent us a drawing would have to wait a week or more for a quote. We would study the design and deliver our 'best guess' cost estimate. Subsequent adjustments were always expected. Today, with AutoCAD as part of our design system, we get an accurate run time and cost estimate within minutes."

The advantage for Du-All's sales team is the ability to be more responsive, meaning more booked sales. And the advantage for Du-All's bottom line is that accurate quotes help ensure profitability.



AUTODESK, INC.
NET INCOME PER SHARE

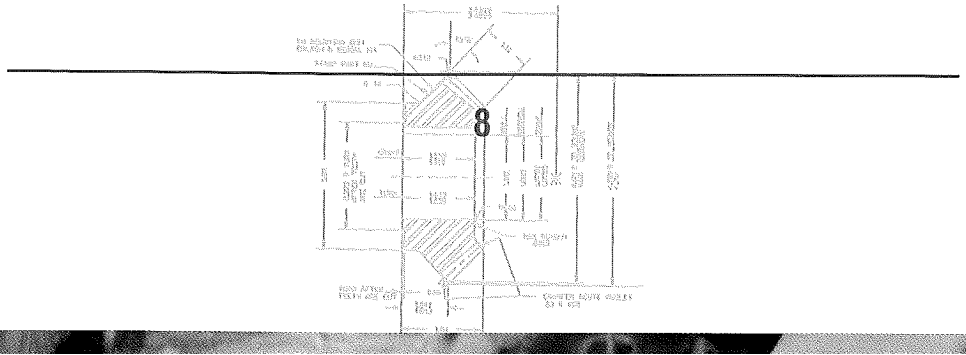
In a typical application at Du-All, AutoCAD is used to create drawings and, based on a wide variety of design criteria, generate detailed specifications, tooling structures, and materials requirements. The finalized drawings are linked, via AutoCAD, to a computer-aided manufacturing (CAM) software package that drives the production machines. A job that once took days or weeks takes only minutes.

Because Du-All works with a large number of distributed design houses, a compatible format for file transfer is an absolute requirement for productivity. With AutoCAD, Du-All isn't locked in to a proprietary format. Instead, AutoCAD lets designers and production engineers port information directly into the system from a variety of sources.

"When you consider how many different customers we have," remarks McCarthy, "and the variety of software applications and platforms they employ, you begin to see why AutoCAD's flexibility is so critical to our operation."

In Mr. McCarthy's words, "Because of the system's capabilities, we've been able to take on more and more sophisticated jobs and programs, and have become much more competitive with the staff we already have. The cost of AutoCAD is insignificant in relation to what it allows us to accomplish. It gives us the competitive edge we need to survive.

"When a study is made of CAD in the manufacturing environment," continues McCarthy, "whether it be 2-D or 3-D CAD, the program invariably mentioned first and foremost is AutoCAD. After using the product for two years, we certainly understand why."



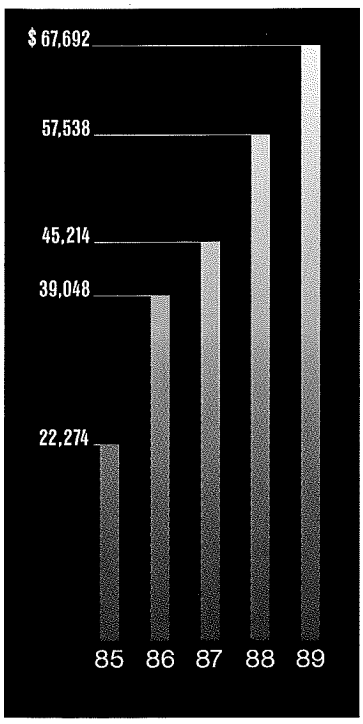
"The cost savings we got with AutoCAD allowed us to put a PC on every engineer's desktop. Now they're always productive."

In the Smokey Mountains of Asheville, North Carolina, Westinghouse's Construction Equipment Division of the Distribution and Control business unit manufactures low and medium voltage motor assemblies. Electrical and mechanical engineers and technicians team up to design and manufacture control assemblies for industrial process lines, air compressors, water treatment facilities, industrial and commercial air conditioning, and many other applications.

After eight years of running the operation using a mainframe-based CAD system, Westinghouse switched to AutoCAD. The result has been higher productivity and lower operating costs.

Typically, companies accept higher initial costs for new computing systems with the hope that savings will be netted downstream. But at Westinghouse, the AutoCAD systems were immediately cost-effective.

Explains Al Denio, manager of Applications Engineering, "With the mainframe CAD system there were never enough workstations at peak load hours. Technicians had to wait in line to use the terminals. That's a real waste of talent. The cost savings we got with AutoCAD allowed us to put a PC on every technician's desktop. Now they're always productive."



AUTODESK, INC.
NET INCOME PER EMPLOYEE

AutoCAD's open architecture has also made it possible for Westinghouse to integrate the CAD software with a knowledge-based "smart" system developed with FoxBase+™ database software.

Denio describes the benefits of the integrated design and manufacturing process. "We've configured a system where everything is driven from the PC on the technician's desk. A customer's requirements are entered via a catalog numbering system into the 'smart' system that generates the manufacturing bills of materials. At the same time, the 'smart' system outputs the necessary information for AutoCAD to draw the associated schematics, wiring diagrams, and outlines without intervention by the technician.

"Drawing maintenance requirements have been significantly reduced by AutoCAD's 'cut and paste' capability. Previously, when a correction was needed, 100 or so drawings had to be changed. Now the change is made in a single 'chunklet' that is used in the many composite drawings the system can produce."

Westinghouse looked at long-term maintenance and installation costs carefully before choosing AutoCAD. Westinghouse's picturesque location gives better access to skiing, hiking, and fishing than to armies of sophisticated support personnel. Says Denio, "We wanted to rely on our own personnel for system support. Our technicians integrated the system. They specified the equipment and designed the way the network, the AutoCAD system, and the 'smart' system operate. Now, if something shuts down, anyone can help. We have a shop to run that can't wait for a consultant to arrive by airplane.

"We're very satisfied with what we've been able to build with AutoCAD in less than one year," comments Denio, "and when the development engineers within the sister division that develops the components we use in our motor assemblies saw our system, they bought AutoCAD, too." This sister division uses AutoCAD's 3-D capabilities for their mold designs, aplanar schematics, and wiring diagrams.

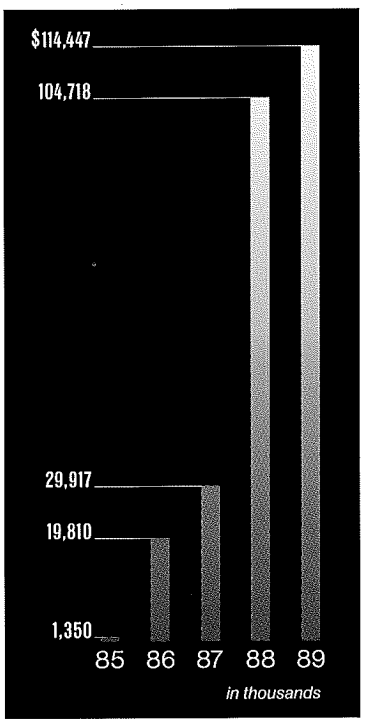
"We built our automated design system with AutoCAD at the core...We achieved a substantial increase in drafting production almost overnight."

Stone and Webster of Houston, Texas, is a leader in plant and facilities design for the petrochemical and power utilities industries. Their design projects include massive installations that may take more than a year to complete.

The complexity of the designs presents a number of problems for Stone and Webster's engineers. The sheer volume of data is such that simply keeping track of the design is a challenge. And, because even small changes can have far-reaching implications, designs must be updated carefully and consistently.

As Don Gilstrap, Stone and Webster's supervisor of Engineering Computer Applications points out, "Automation provides the only cost-effective solution to these problems; we built our automated design system with AutoCAD at the core. With the system in place, we've improved our turnaround time by well over 20 percent. That's a hefty return on our modest investment.

"With a broad scope of clients," continues Gilstrap, "each having specific and unique design requirements, we needed a flexible CAD system that could operate on a variety of platforms and be customized to meet specialized needs." And, because a disruption in the design process means a disruption in profitability, the company wanted a CAD system that was easy to learn and use.



AUTODESK, INC.
WORKING CAPITAL

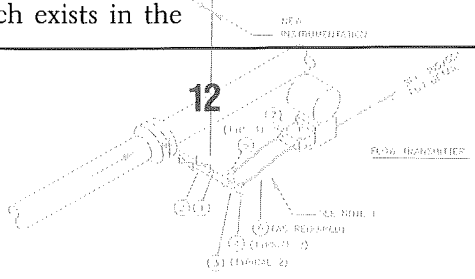
Stone and Webster put together a system incorporating a proprietary instrument database linked to AutoCAD and networked across 386-class PC workstations. Now the design process is automated from the beginning. The CAD operator may generate a drawing automatically from information which exists in the database by utilizing AutoLISP. The drawings can be created after the operators have left the machine for the day. All data on the drawings exist in the database and therefore can be transferred to or from other higher level databases which include other CAD systems.

The design begins with the development of process and instrumentation diagrams on AutoCAD. These diagrams, including piping, towers, and vessels, become the basis for the final plant design. Rather than shuffling through mountains of paper to locate information, engineers use AutoCAD to identify and modify designs as necessary. Pertinent information from the designs is transferred to the instrument engineers who develop flow diagrams.

Drawings are tracked automatically. Unlike paper, electronic AutoCAD drawings can't get lost at the bottom of an archive shelf. Specification sheets are produced automatically from the drawings and are so definitive they can be used for both competitive bidding and instrument selection. Bills of material are generated electronically, simplifying purchase of bulk materials.

Installation of the new system did not interfere significantly with workflow at Stone and Webster. Reports Gilstrap, "AutoCAD has the shortest learning curve of the CAD packages we looked at. We achieved a substantial increase in drafting production almost overnight.

"Ease of use, flexibility, and the low-cost workstations were the keys to our selection of AutoCAD. And we've been satisfied with our choice. AutoCAD gave us a fast return on our investment."



Research

We're always looking for the next AutoCAD: the next product that seems to come out of nowhere to serve an industry that doesn't yet exist. With the formation of the new Autodesk Research Lab this past April, Autodesk is developing a number of innovative concepts to guide future products.

Through technology tracking, research, prototype development, and testing we have identified project areas that fit our long term goals.

Third-Party Development

The Autodesk Registered Developers Program continues to play a strategic role in our Company's vertical marketing. Our open architecture approach to software has made our products an ideal foundation upon which others can build. A variety of developers in dozens of strategically important industries produce products tailored specifically to the needs of their customers. This allows Autodesk, without the research and development or marketing overhead, to penetrate specific vertical and niche markets worldwide.

Autodesk encourages quality in these add-on products by screening each developer candidate. Autodesk actively supports third-party development and peripheral device drivers through the Registered Developers and Autodesk Device Interface programs. Selection for the programs is based on the developers' abilities to produce useful, quality products.

The Partnership of Industry and Education

Early in the game, Autodesk recognized that education was important in the ultimate acceptance of a product such as AutoCAD. Ground-breaking programs brought AutoCAD into vocational and technical schools and have sent a constant stream of trained AutoCAD advocates into large and small businesses around the world.

Now we're reaching the educational community even more successfully. A team of Area Educational Representatives (a select group of authorized AutoCAD dealers) supports the educational programs by providing special product pricing and consulting services to educational institutions.

Autodesk sponsors far-reaching programs in education. The Autodesk Curriculum Initiative is a bold new plan to sponsor a national technology curriculum. The Alliance for Manufacturing Productivity works with 24 vocational schools and community colleges to form a nationwide network for exploring the use of CAD/CAM in the manufacturing environment. Teachers are acquainted with CAD through Autodesk's Teacher Training Program.

The authorized AutoCAD Training Center® (ATC™) network, a critical element of the Autodesk customer support strategy, includes 300 accredited training institutions worldwide, which offer basic, intermediate, and advanced AutoCAD training for professionals.

Every year, approximately 150,000 students in the United States benefit from these programs, ensuring a strong future demand for our products.

Creating Growth

Growth comes of capturing opportunities, not simply observing them. At Autodesk, we look for opportunities by watching, listening, and then moving forward. Trends in our customer profiles guide our technological direction. Trends in the industry guide our market direction. And insight and experience propel us to untapped areas that are full of potential.

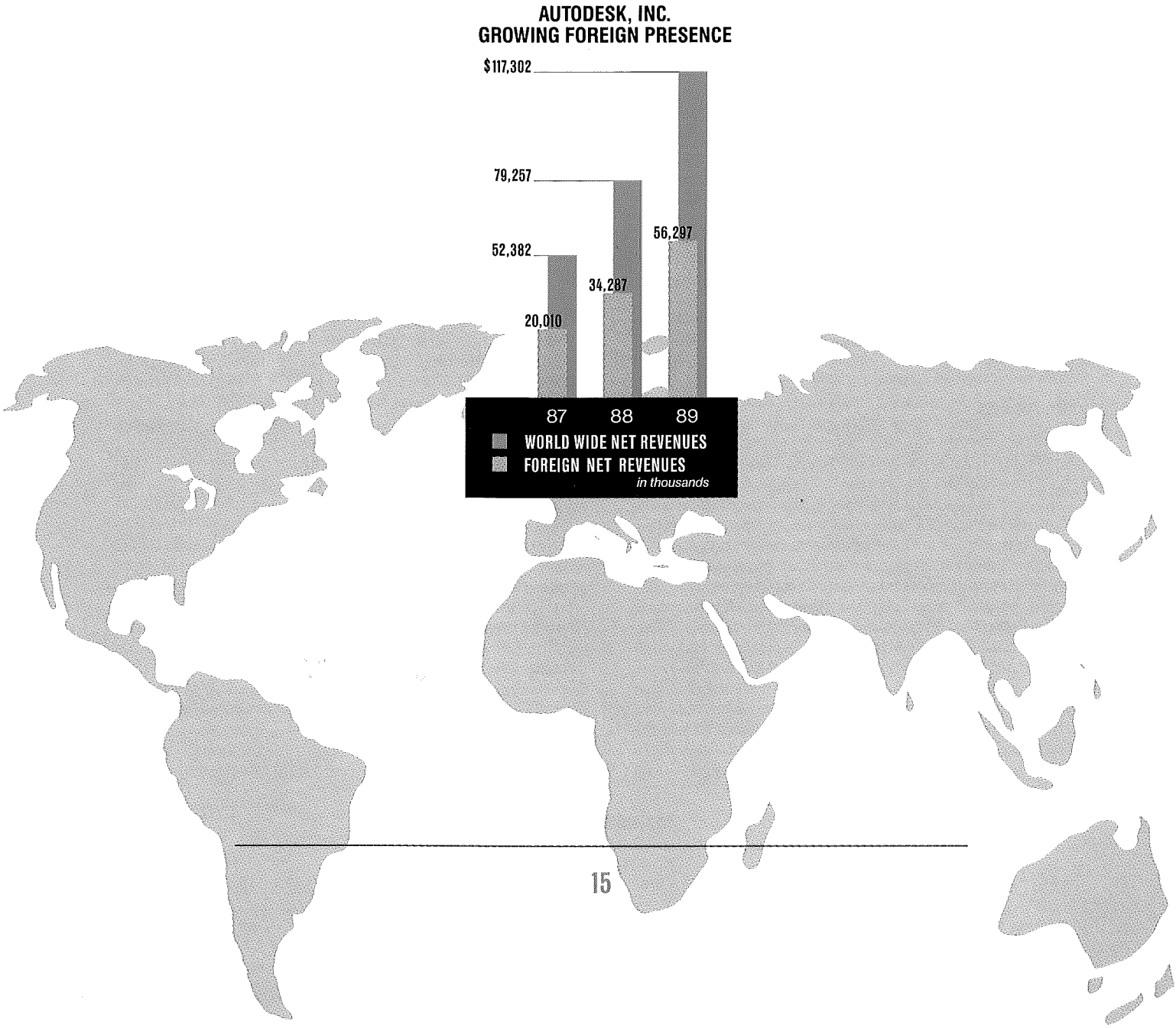
Once, Autodesk products were seen as low-cost tools that made CAD affordable for the "little guy." And that's still true; we haven't forgotten where we came from. But ever larger companies and ever more complex industries are beginning to find that what makes CAD cost-effective in the small architectural office or machine shop also makes good sense in the large manufacturing or facilities management environment.

We will be addressing the needs of these large accounts with the four new regional offices we're opening in Chicago, Dallas, Atlanta, and Parsippany, New Jersey. The staff in these regional offices will give our corporate customer accounts the specialized attention they need and expect.

And, as deficit pressures force the government to seek cost savings, Autodesk products have growing popularity in federal installations. We have responded to the opportunity by opening an office in Washington, D.C.

Our search for opportunity extends overseas; in this fiscal year, international sales accounted for 48% of our business. We have subsidiaries in Australia, Japan, Sweden, Switzerland, and the United Kingdom. In addition, a network of distributors and dealers, managed from our Sausalito headquarters, addresses other selling opportunities worldwide.

Our strong ties with our customers, our resellers, and our account salespeople, both nationally and internationally, have helped us establish the pre-eminent sales and distribution network in the industry. With this in place, we are prepared to reach into new markets and find new customers.



NET REVENUES

(In millions)	1989	Increase	1988	Increase	1987
Net revenues	$117.3	48%	$79.3	51%	$52.4

The Company's net revenues have continued to increase as a result of several factors, including the acceptance of AutoCAD as a market standard, periodic upgrades of AutoCAD (the ninth of which was released in October 1988), expansion of the Company's foreign operations and export sales, and the general expansion of the personal computer CAD software market. Sales of AutoCAD accounted for approximately 93% of net revenues in fiscal years 1989 and 1988, and approximately 96% of net revenues in fiscal year 1987.

The Company's Western European and Pacific Basin operations continued to expand during fiscal year 1989. Western European net revenues for fiscal year 1989 increased approximately 47% over fiscal year 1988 net revenues, which had increased approximately 70% over fiscal year 1987; Pacific Basin net revenues for fiscal year 1989 increased approximately 123% over fiscal year 1988 net revenues, which had increased approximately 160% over fiscal year 1987. Foreign net revenues, including net revenues from the United States to foreign customers, accounted for approximately 48%, 43%, and 38% of net worldwide revenues in fiscal years 1989, 1988, and 1987, respectively. See Note 11 of Notes to Consolidated Financial Statements.

Domestically, the Company sells its products primarily to dealers and distributors which accounted for approximately 39%, 42%, and 58% of worldwide net revenues in fiscal years 1989, 1988, and 1987, respectively. The balance of domestic sales is made principally to educational institutions, government agencies, and, through the Company's major accounts programs, to large corporations.

COST OF REVENUES

(In millions)	1989	Increase	1988	Increase	1987
Cost of revenues	$14.5	37%	$10.6	34%	$ 7.9
Percentage of net revenues	12%		13%		15%

Cost of revenues includes royalty payments, production of technical manuals and associated materials, purchase of software protection devices included in packages sold outside the United States and Canada, blank disks, the cost of transferring the software programs onto these disks, and the amortization of capitalized software development costs. The decrease in cost of revenues as a percentage of net revenues is due to a number of factors, including the benefits from economies of scale associated with higher sales volume, the increase in the price of newer AutoCAD versions, and the reduction in royalty payments resulting both from increased sales of AutoCAD extension packages which bear no royalty cost and from the restructuring of the base package pricing during fiscal year 1987.

OPERATING EXPENSES

(In millions)	1989	Increase	1988	Increase	1987
Marketing and sales	$31.9	63%	$19.6	57%	$12.5
Percentage of net revenues	27%		25%		24%
Research and development	$10.9	52%	$ 7.2	114%	$ 3.4
Percentage of net revenues	9%		9%		6%
General and administrative	$13.1	23%	$10.6	51%	$ 7.0
Percentage of net revenues	11%		13%		13%

Marketing and sales expenses include commissions to sales representatives for sales to Fortune 500 companies, travel, facility costs for the Company's sales, marketing, and product support personnel, AutoCAD expositions held at various locations worldwide, cooperative advertising programs, and various programs designed for increasing revenues from corporate accounts and the educational and government markets. The growth in these expenses is not generally attributable to any one factor, but reflects the continuing expansion of the Company's domestic and international markets.

Research and development expenses consist primarily of salary costs for software developers and the cost of computer equipment used in software development. The increase in research and development expenses is due primarily to the addition of technical staff who joined the Company through the acquisition of Cadetron in fiscal year 1988 and Xanadu and Amix in fiscal year 1989, and the hiring of software development personnel. Total research and development costs, including costs capitalized in accordance with Statement of Financial Accounting Standard (SFAS) No. 86, amounted to 12%, 11%, and 7% of net revenues in fiscal years 1989, 1988, and 1987, respectively. The Company intends to continue to recruit and hire experienced software developers while at the same time consider the acquisition of complementary software technology and products.

General and administrative expenses include the finance, accounting, legal, purchasing, facilities, and administrative operations of the Company. These costs decreased as a percentage of net revenues in fiscal year 1989 due to the benefits from certain economies of scale associated with the Company's growth, especially the foreign operations.

INTEREST AND OTHER INCOME

(In millions)	1989	Increase	1988	Increase	1987
Interest and other income	$7.2	89%	$3.8	271%	$1.3
Percentage of net revenues	6%		5%		2%

Interest income was $6.6 million, $3.4 million, and $1.0 million for fiscal years 1989, 1988, and 1987, respectively. Growth in interest income was attributable to a larger investment portfolio resulting from funds generated from operations and additional capital raised in the second public offering of common stock in June 1987. Other income included foreign currency transaction gains and gains on the sale of assets.

PROVISION FOR INCOME TAXES

(In millions)	1989	Increase	1988	Increase	1987
Provision for income taxes	$21.5	48%	$14.5	28%	$11.3
Percentage of net revenues	18%		18%		22%
Effective income tax rate	40%		41%		49%

The decrease in the effective tax rate for fiscal years 1989 and 1988 resulted from the Tax Reform Act of 1986, which lowered the maximum corporate tax rate from 46% to 34%. For an analysis of the differences between the statutory and the effective income tax rates, see Note 3 of Notes to Consolidated Financial Statements.

In December 1987, the Financial Accounting Standards Board issued SFAS No. 96 "Accounting for Income Taxes," which the Company will be required to adopt by fiscal year 1991. The Company believes that the statement will not have a material effect on operating results.

NET INCOME AND NET INCOME PER SHARE (In millions, except per share data)

	1989	Increase	1988	Increase	1987
Net income	$32.7	59%	$20.5	77%	$11.6
Percentage of net revenues	28%		26%		22%
Net income per share	$1.35	52%	$0.89	62%	$0.55

The growth of the Company's net income and net income per share reflects increased unit sales volume and sales of enhancements to the AutoCAD package which bear higher gross margins. The profitability of the Company's international operations continued to improve in fiscal year 1989, but still remained below that of its domestic operations. See Note 11 of Notes to Consolidated Financial Statements. The Company has not experienced any significant effects of inflation in recent years.

The Company's results of operations to date have not been measurably affected by seasonal trends. See Note 10 of Notes to Consolidated Financial Statements for unaudited quarterly information for fiscal years 1988 and 1989. The Company believes that in the future, however, order deferrals in anticipation of new product releases or delays in the shipment of new products may occur and could impact quarterly results. In addition, with a significant portion of net revenues and net income contributed by international operations, fluctuations of the U.S. dollar against foreign currencies could impact quarterly results. Further, increased competition in the market for computer aided design software could result in pricing pressures which could have a negative impact on the Company's results of operations.

LIQUIDITY AND CAPITAL RESOURCES

Working capital, which consists principally of cash and cash equivalents and marketable securities, was $114.4 million at January 31, 1989, compared to $104.7 million at January 31, 1988. The ratio of current assets to current liabilities was at 7.2:1 at January 31, 1989 compared to 12.8:1 at January 31, 1988. Increases in income taxes payable and investments in securities with maturities longer than one year accounted for the decline in the current ratio during fiscal year 1989.

Cash flows provided from operations during fiscal year 1989 totaled $39.5 million of which $27.4 million increased cash and cash equivalents or was used to purchase marketable securities and $9.2 million was used to purchase furniture, computer equipment, and leasehold improvements.

Cash flows provided from operations during fiscal year 1988 totaled $21.7 million, and an additional $57.3 million of cash was provided by the issuance of common shares in a second public offering. Cash and cash equivalents and marketable securities increased $72.3 million, and $6.5 million was used to purchase furniture, computer equipment, and leasehold improvements.

The Company has a $10.0 million unsecured bank line of credit under which borrowings bear interest at the bank's prime rate. The Company had no outstanding borrowings under the line of credit as of January 31, 1989. The Company's principal commitments at January 31, 1989 consisted of obligations under operating and capital leases.

Longer term cash requirements, other than normal operating expenses, are anticipated to relate to the development of new software products and enhancement of existing products, financing of continued growth, and the possible acquisition of software products or technologies complementary to the Company's business. On March 7, 1989, the Company signed a letter of intent to purchase all of the outstanding stock of Generic Software, Inc. See Note 9 of Notes to Consolidated Financial Statements. The Company believes that its existing cash and marketable securities, cash generated from operations, and available borrowings under its line of credit are sufficient to satisfy its current cash requirements.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors and Shareholders
Autodesk, Inc.

We have audited the accompanying consolidated balance sheet of Autodesk, Inc. at January 31, 1989 and 1988, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended January 31, 1989. 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Autodesk, Inc. at January 31, 1989 and 1988, and the consolidated results of operations and cash flows for each of the three years in the period ended January 31, 1989 in conformity with generally accepted accounting principles.

Arthur Young & Company

San Francisco, California
February 21, 1989,
except for Note 9, as to which the date is
March 7, 1989

CONSOLIDATED STATEMENT OF INCOME

Years ended January 31,	1989	1988	1987
Net revenues	$117,302,000	$79,257,000	$52,382,000
Costs and expenses:			
Cost of revenues	14,507,000	10,552,000	7,864,000
Marketing and sales	31,859,000	19,641,000	12,465,000
Research and development	10,921,000	7,206,000	3,366,000
General and administrative	13,098,000	10,649,000	7,049,000
	70,385,000	48,048,000	30,744,000
Income from operations	46,917,000	31,209,000	21,638,000
Interest income	6,636,000	3,400,000	1,007,000
Other income, net	612,000	438,000	280,000
Income before income taxes	54,165,000	35,047,000	22,925,000
Provision for income taxes	21,470,000	14,506,000	11,305,000
Net income	$ 32,695,000	$20,541,000	$11,620,000
Net income per share	$1.35	$0.89	$0.55
Shares used in computing net income per share	24,140,000	23,180,000	21,030,000

See accompanying notes.

CONSOLIDATED BALANCE SHEET

January 31,	1989	1988
ASSETS		
Current assets:		
Cash and cash equivalents	$ 49,633,000	$ 47,780,000
Marketable securities	58,178,000	48,851,000
Accounts receivable, net of allowance for doubtful accounts of $1,759,000 ($1,109,000 in 1988)	16,354,000	11,353,000
Inventories	2,371,000	1,712,000
Deferred income taxes	2,711,000	1,836,000
Prepaid expenses and other current assets	3,808,000	2,044,000
Total current assets	133,055,000	113,576,000
Marketable securities	16,204,000	—
Furniture, equipment, and leasehold improvements, at cost:		
Furniture and equipment	17,034,000	9,619,000
Leasehold improvements	3,553,000	1,813,000
Less accumulated depreciation	(7,175,000)	(3,886,000)
Net furniture, equipment, and leasehold improvements	13,412,000	7,546,000
Capitalized software	4,024,000	1,668,000
Other assets	3,198,000	2,661,000
	$169,893,000	$125,451,000

See accompanying notes.

CONSOLIDATED BALANCE SHEET

January 31,	1989	1988
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 3,854,000	$ 2,327,000
Accrued compensation	2,746,000	1,016,000
Other accrued liabilities	3,603,000	2,334,000
Income taxes payable	8,405,000	3,181,000
Total current liabilities	18,608,000	8,858,000
Deferred income taxes	3,053,000	1,548,000
Other liabilities	498,000	280,000
Commitments	—	—
Shareholders' equity:		
Preferred stock, no par value; 2,000,000 shares authorized, none issued or outstanding	—	—
Common stock, no par value; 50,000,000 shares authorized, 24,005,000 shares issued and outstanding (23,824,000 in 1988)	74,364,000	72,897,000
Retained earnings	72,777,000	40,082,000
Foreign currency translation adjustment	593,000	1,786,000
Total shareholders' equity	147,734,000	114,765,000
	$169,893,000	$125,451,000

See accompanying notes.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Three-year period ended January 31, 1989	Common stock Shares	Common stock Amount	Retained earnings	Foreign currency translation adjustment	Total shareholders' equity
Balances, January 31, 1986	20,148,000	$12,747,000	$ 8,250,000	$ 173,000	$ 21,170,000
Common shares issued upon exercise of stock options and warrants	427,000	471,000			471,000
Tax effect of stock options		137,000			137,000
Net income			11,620,000		11,620,000
Foreign currency translation adjustment				584,000	584,000
Balances, January 31, 1987	20,575,000	13,355,000	19,870,000	757,000	33,982,000
Common shares issued in second public offering, net of issuance costs	2,500,000	57,316,000			57,316,000
Common shares issued upon exercise of stock options and warrants	453,000	1,142,000			1,142,000
Tax effect of stock options		850,000			850,000
Acquisition of Cadetron, Inc.	296,000	234,000	(329,000)		(95,000)
Net income			20,541,000		20,541,000
Foreign currency translation adjustment				1,029,000	1,029,000
Balances, January 31, 1988	23,824,000	72,897,000	40,082,000	1,786,000	114,765,000
Common shares issued under stock option and stock purchase plans	181,000	1,321,000			1,321,000
Tax effect of stock options		146,000			146,000
Net income			32,695,000		32,695,000
Foreign currency translation adjustment				(1,193,000)	(1,193,000)
Balances, January 31, 1989	24,005,000	$74,364,000	$72,777,000	$ 593,000	$147,734,000

See accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended January 31,	1989	1988	1987
Cash flows from operating activities:			
Net income	$ 32,695,000	$ 20,541,000	$11,620,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,881,000	2,613,000	978,000
Changes in assets and liabilities:			
Accounts receivable	(5,001,000)	(3,223,000)	(3,220,000)
Inventories	(659,000)	(589,000)	(466,000)
Deferred income taxes	630,000	(2,000)	51,000
Prepaid expenses and other current assets	(1,764,000)	(912,000)	(465,000)
Accounts payable	1,527,000	889,000	701,000
Accrued compensation	1,730,000	422,000	270,000
Other accrued liabilities	1,269,000	1,201,000	571,000
Income taxes payable	5,224,000	791,000	981,000
Net cash provided by operating activities	39,532,000	21,731,000	11,021,000
Cash flows from investing activities:			
Purchases of marketable securities	(25,531,000)	(32,008,000)	(3,895,000)
Purchase of furniture, equipment, and leasehold improvements	(9,155,000)	(6,505,000)	(2,837,000)
Additions to capitalized software	(2,948,000)	(1,429,000)	(444,000)
Other	(1,512,000)	(775,000)	(197,000)
Net cash used in investing activities	(39,146,000)	(40,717,000)	(7,373,000)
Cash flows from financing activities:			
Proceeds from issuance of common shares and warrants, net of issuance costs	1,467,000	59,308,000	607,000
Net cash provided by financing activities	1,467,000	59,308,000	607,000
Net increase in cash and cash equivalents	1,853,000	40,322,000	4,255,000
Net increase in cash and cash equivalents	1,853,000	40,322,000	4,255,000
Cash and cash equivalents at beginning of year	47,780,000	7,458,000	3,203,000
Cash and cash equivalents at end of year	$ 49,633,000	$ 47,780,000	$ 7,458,000

See accompanying notes.

NOTE
1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations

Autodesk, Inc. (the "Company") develops, markets, and supports a family of computer-aided design and engineering software products for desktop computers and workstations. The Company distributes its products worldwide and has operations in Australia, Japan, Sweden, Switzerland, the United Kingdom, and the United States.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Foreign subsidiaries' asset and liability accounts 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. The foreign currency translation adjustments are reflected as a separate component of shareholders' equity. Gains and losses resulting from foreign currency transactions are included in other income ($213,000, $392,000, and $250,000 in fiscal years 1989, 1988, and 1987, respectively).

In March 1987, the Company acquired all of the outstanding common stock of Cadetron, Inc., a Delaware corporation, in exchange for 296,000 shares of the Company's common stock. The transaction was accounted for as a pooling of interests. The results of operations of Cadetron, Inc. are included in the consolidated statement of income for fiscal years 1989 and 1988. The Company's consolidated results for years prior to fiscal year 1988 have not been restated as the operations of Cadetron, Inc. were not material.

Statement of Cash Flows

The Company has adopted Statement of Financial Accounting Standard (SFAS) No. 95, "Statement of Cash Flows" and, accordingly, has restated the prior years' statements of changes in financial position to conform to the fiscal year 1989 presentation.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less to be cash equivalents.

Marketable Securities

Marketable securities, consisting principally of municipal bonds, are stated at cost, which approximates market value. Marketable securities with maturities not exceeding one year are classified as current.

Inventories

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

Depreciation and Amortization

Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from two to ten years. Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful life or the lease term.

Capitalized Software

Prior to fiscal year 1987, costs related to the research and development of software products were expensed as incurred. Beginning in fiscal year 1987, costs incurred in the initial design phase of software development are expensed. Once the point of technological feasibility is reached, direct production costs (programming and testing) are capitalized and amortized ratably as related sales are recognized, but not less than on a straight-line basis over a three- to five-year period. Amortization expense was $592,000, $156,000, and $49,000 in fiscal years 1989, 1988, and 1987, respectively.

Net Income per Share

Net income per share is based on the weighted average number of common shares outstanding and dilutive common stock equivalents.

NOTE
2

ROYALTIES

The Company licenses certain software used to develop the basic AutoCAD package and AutoCAD AEC. The royalties are payable to the developers of the software at 10 to 24 percent of gross revenues from sales of the basic packages, excluding enhancements developed by the Company. Royalty expense was $1,983,000, $1,118,000, and $851,000 in fiscal years 1989, 1988, and 1987, respectively. Such costs are included as a component of cost of net revenues.

NOTE
3

INCOME TAXES

The provision for income taxes consists of the following:

	1989	1988	1987
Federal:			
Current	$12,960,000	$10,347,000	$ 7,938,000
Deferred	(308,000)	(540,000)	(140,000)
State:			
Current	3,273,000	1,784,000	2,036,000
Deferred	11,000	188,000	(147,000)
Foreign:			
Current	4,607,000	2,377,000	1,280,000
Deferred	927,000	350,000	338,000
	$21,470,000	$14,506,000	$11,305,000

The provision for deferred income taxes reflects timing differences in the recognition of capitalized software costs and related amortization, accelerated depreciation, and rent expense. The credit for deferred taxes arises principally from the timing of the deductibility of state taxes for federal income tax purposes.

The principal reasons that the aggregate income tax provisions differ from the U.S. statutory rate (34 percent in fiscal year 1989, 39 percent in fiscal year 1988, and 46 percent in fiscal year 1987) are reflected below:

	1989	1988	1987
Income tax provision at statutory rate	$18,416,000	$13,644,000	$10,545,000
Tax effect of foreign subsidiaries' earnings	1,086,000	(24,000)	106,000
State income taxes, net of federal tax benefit	2,167,000	1,204,000	1,020,000
Tax exempt interest	(1,731,000)	(993,000)	(317,000)
Other	1,532,000	675,000	(49,000)
	$21,470,000	$14,506,000	$11,305,000

No provision has been made for federal income taxes on the unremitted earnings of the foreign subsidiaries (cumulative $14,792,000 at January 31, 1989) as the Company plans to permanently reinvest all such earnings. However, if such earnings were remitted to the parent, foreign tax credits would be available to substantially offset the U.S. income tax.

Cash payments for income taxes were $16,093,000, $13,416,000, and $10,951,000 for fiscal years 1989, 1988, and 1987, respectively.

The Company has not adopted SFAS No. 96, "Accounting for Income Taxes," which it will be required to do by fiscal year 1991. The Company believes that the statement will not have a material effect on its financial position or operating results.

NOTE 4

BANK LINE OF CREDIT

At January 31, 1989, the Company had available a $10,000,000 unsecured bank revolving line of credit expiring May 31, 1989. Outstanding borrowings bear interest at the bank's prime rate. The Company is required to pay an annual commitment fee of 3/8 percent of the total commitment or maintain a compensating cash balance of 5 percent of the commitment.

NOTE 5

LEASE COMMITMENTS

The Company leases office space and equipment under noncancelable lease arrangements. The leases generally provide that the Company pay taxes, insurance, and maintenance expenses related to the leased assets.

At January 31, 1989, future minimum lease payments under capital leases (included in accrued and other liabilities) and noncancelable operating leases are as follows:

	Capital leases	Operating leases
Year ending January 31:		
1990	$185,000	$ 3,925,000
1991	164,000	3,511,000
1992	127,000	3,251,000
1993	131,000	2,524,000
1994	9,000	1,448,000
Thereafter	—	1,229,000
Total minimum lease payments	616,000	$15,888,000
Less amount representing interest	170,000	
Present value of minimum lease payments	446,000	
Less current portion	126,000	
	$320,000	

Rent expense was $3,781,000, $2,429,000, and $1,245,000 in fiscal years 1989, 1988, and 1987, respectively.

NOTE
6

STOCK OPTION PLAN

Under the 1987 Stock Option Plan, incentive and nonqualified stock options may be granted to employees (nonqualified options may also be granted to directors and consultants of the Company) to purchase a maximum of 2,000,000 shares. The exercise price of the options is determined by the Board of Directors (at least 100 percent of the fair market value of the stock for incentive stock options) on the grant date.

In October 1987, holders of the Company's qualified and nonqualified stock options were given the opportunity to replace their existing options with an equivalent number of similar stock options at an exercise price of $13 per share, the then current fair market value. An aggregate of 71,845 options at exercise prices of $17.42 to $27.75 per share were exchanged. These replacements are included in grants and cancellations in the following summary of stock option activity.

Changes in options outstanding are as follows:

	Number of shares	Per share
Options outstanding at January 31, 1986	886,000	$ 0.17-$ 7.42
Granted	189,000	$ 7.92-$11.38
Exercised	(384,000)	$ 0.17-$ 7.42
Canceled	(35,000)	$ 0.17-$11.38
Options outstanding at January 31, 1987	656,000	$ 0.17-$11.38
Granted	205,000	$ 0.55-$27.75
Exercised	(352,000)	$ 0.17-$17.42
Canceled	(77,000)	$ 0.33-$27.75
Options outstanding at January 31, 1988	432,000	$ 0.17-$18.00
Granted	162,000	$22.25-$27.50
Exercised	(164,000)	$ 0.17-$13.00
Canceled	(6,000)	$11.38-$27.50
Options outstanding at January 31, 1989	424,000	$ 0.17-$27.50
Options exercisable at January 31, 1989	268,000	
Options available for grant at January 31, 1989	1,720,000	

Certain employees disposed of stock acquired through the exercise of incentive stock options earlier than the mandatory holding period required of qualifying incentive stock options. The tax benefits allowed to the Company because of these dispositions, together with the tax benefits realized from the exercise of nonqualified stock options, have been recorded as increases to common stock.

NOTE
7

EMPLOYEE STOCK PURCHASE AND SAVINGS PLANS

In February 1988, the Company adopted an employee stock purchase plan under which employees may purchase shares of the Company's common stock, subject to certain limitations, at 85 percent of the lower of the shares' fair market value at the beginning or end of a six-month period. A total of 200,000 shares have been reserved for issuance under this plan. During fiscal year 1989, 17,000 shares were issued to employees at $19.55 per share.

The Company has a noncontributory pretax savings plan for its employees, which qualifies under Section 401(k) of the Internal Revenue Code. Under the plan, tax deferred contributions are made by employee participants electing to reduce their compensation by specified amounts.

NOTE
8

PREFERRED STOCK

The Articles of Incorporation authorize 2,000,000 shares of preferred stock, none of which are 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 shareholders.

NOTE
9

SUBSEQUENT EVENT

On March 7, 1989, the Company signed a letter of intent to purchase all of the outstanding stock of Generic Software, Inc. Consummation of the transaction is contingent upon completion of due diligence, negotiation and signing of a definitive agreement, and approval by the Company's Board of Directors and the shareholders of Generic Software, Inc.

NOTE
10

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial information for fiscal years 1989 and 1988 are as follows (in thousands, except per share data):

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total year
1989					
Net revenues	$25,757	$27,253	$30,292	$34,000	$117,302
Gross profit	22,580	23,895	26,723	29,597	102,795
Net income	7,246	7,599	8,506	9,344	32,695
Net income per share	.30	.31	.35	.39	1.35
1988					
Net revenues	$17,292	$18,778	$20,208	$22,979	$79,257
Gross profit	15,177	16,412	17,337	19,779	68,705
Net income	3,880	4,816	5,436	6,409	20,541
Net income per share	.18	.21	.23	.27	.89

NOTE
11

SEGMENT INFORMATION — WORLDWIDE OPERATIONS

The Company develops, markets, and supports a family of computer-aided design and engineering software products for desktop computers and workstations, which are marketed worldwide. Information regarding geographic areas at January 31, 1989, 1988, and 1987 and for the years then ended is as follows (in thousands):

	United States	Western Europe	Pacific Basin	Consolidation eliminations	Consolidated total
Year ended January 31, 1989:					
Net revenues	$ 69,673	$34,415	$13,214	$ —	$117,302
Net revenues between geographic areas	9,108	—	—	(9,108)	—
Total net revenues	$ 78,781	$34,415	$13,214	$ (9,108)	$117,302
Operating income	$ 25,586	$15,335	$ 5,996	$ —	$ 46,917
Income before income taxes	$ 40,957	$ 9,908	$ 3,300	$ —	$ 54,165
Identifiable assets	$151,037	$21,861	$ 8,809	$(11,814)	$169,893
Year ended January 31, 1988:					
Net revenues	$ 49,968	$23,373	$ 5,916	$ —	$ 79,257
Net revenues between geographic areas	5,280	—	—	(5,280)	—
Total net revenues	$ 55,248	$23,373	$ 5,916	$ (5,280)	$ 79,257
Operating income	$ 24,180	$ 6,259	$ 770	$ —	$ 31,209
Income before income taxes	$ 27,974	$ 6,274	$ 799	$ —	$ 35,047
Identifiable assets	$111,169	$15,413	$ 4,579	$ (5,710)	$125,451
Year ended January 31, 1987:					
Net revenues	$ 36,335	$13,774	$ 2,273	$ —	$ 52,382
Net revenues between geographic areas	2,796	—	—	(2,796)	—
Total net revenues	$ 39,131	$13,774	$ 2,273	$ (2,796)	$ 52,382
Operating income (loss)	$ 18,689	$ 3,525	$ (576)	$ —	$ 21,638
Income (loss) before income taxes	$ 19,636	$ 3,754	$ (465)	$ —	$ 22,925
Identifiable assets	$ 33,132	$ 9,105	$ 1,172	$ (3,062)	$ 40,347

Information with respect to Western Europe and the Pacific Basin represents the operations of the Company's foreign subsidiaries. Included in net revenues from the United States are $8,668,000, $4,998,000, and $3,963,000 in fiscal years 1989, 1988, and 1987, respectively, to unaffiliated customers outside the United States.

At January 31, 1989, 1988, and 1987, total foreign net equity was $16,713,000, $9,039,000, and $3,709,000, respectively.

Corporate Information

Officers

Alvar Green
Chairman of the Board
President, Chief Executive Officer
Chief Financial Officer

Daniel Drake
Executive Vice President

Malcolm Davies
Vice President
Marketing & Sales

Richard Handyside
Vice President
European Operations

Ronald McElhaney
Vice President
Software Development

Christopher Record
Vice President—Corporate and
Business Development
General Counsel & Secretary

Directors

Alvar Green
Chairman of the Board
President, Chief Executive Officer
Chief Financial Officer
Autodesk, Inc.

Daniel Drake
Executive Vice President
Autodesk, Inc.

Gregory Lutz
Programmer and Systems Analyst
Autodesk, Inc.

J. Hallam Dawson
Chairman of IDI Associates
A Latin American Merchant/
Investment Bank

James D. Stocker
President of James Stocker &
Associates, International Consultants

Headquarters

2320 Marinship Way
Sausalito, CA 94965
415/332-2344

Legal Counsel

Wilson, Sonsini, Goodrich and Rosati
Two Palo Alto Square
Palo Alto, CA 94306

Transfer Agent

Bank of America
Corporate Agency Service Center
55 Hawthorne Street
San Francisco, CA 94105
Shareholder Inquiries
415/624-4100

Independent Accountants

Arthur Young & Company
One Sansome Street
San Francisco, CA 94104

Subsidiaries

Autodesk AB
Flojelbergsgatan 20C
S-43 137 Molndal, Sweden

Autodesk AG
Zurlindenstrasse 29
P.O. Box CH-4133 Pratteln
Switzerland

Autodesk Softrade AG
Gueterstrasse 137
CH-4053 Basel
Switzerland

Autodesk Australia PTY LTD
9 Clifton Street, Richmond
Victoria 3121, Australia

Autodesk LTD
South Bank Technopark
90 London Road, London SE1 6LN
England

Autodesk LTD Japan
Unosawa Tokyu Building 4F
19-15 Ebisu 1-chome, Shibuya-Ku
Tokyo 150, Japan

American Information Exchange
2345 Yale Street
Palo Alto, California 94306

Xanadu Operating Company
550 California Ave., Suite 100
Palo Alto, California 94306

Per Share Stock State and Dividend Policy—Fiscal Year

1989	HIGH	LOW	VOLUME
First Quarter	29½	16¾	14,229,134
Second Quarter	31¼	25	10,741,744
Third Quarter	29¼	23	10,061,405
Fourth Quarter	32¼	22¾	12,828,659
1988			
First Quarter	31½	16½	13,137,331
Second Quarter	28½	20¾	15,129,636
Third Quarter	32¾	13	14,979,864
Fourth Quarter	22¾	16	11,755,795

The Company's Common Stock is traded over the counter on the NASDAQ National Market System using the symbol "ACAD." The above tables show the range of prices for a share of Common Stock during the Company's fiscal quarters indicated, as furnished by NASDAQ. As of April 14, 1989, the approximate number of shareholders of record of Common Stock was 947.

The Company has not paid any cash dividends. The Board of Directors does not anticipate paying cash dividends in the foreseeable future because it believes the Company should retain its earnings for use in its business.

Annual Meeting

The Company's Annual Meeting of Shareholders will be held at 4:00 P.M. on June 9, 1989, at the Autodesk headquarters, 2320 Marinship Way, Sausalito, CA 94965.

Form 10-K

A copy of the Company's Annual Report on Form 10-K for fiscal year 1989 filed with the Securities and Exchange Commission may be obtained without charge by a written request to the Company Secretary at 2320 Marinship Way, Sausalito, CA 94965.

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