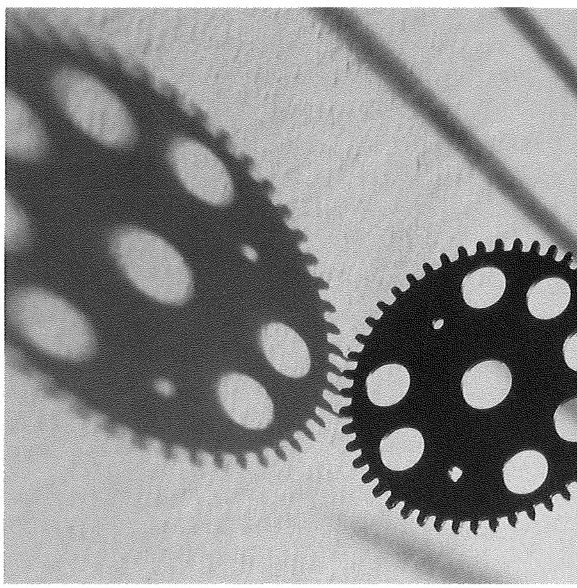
Autodesk®



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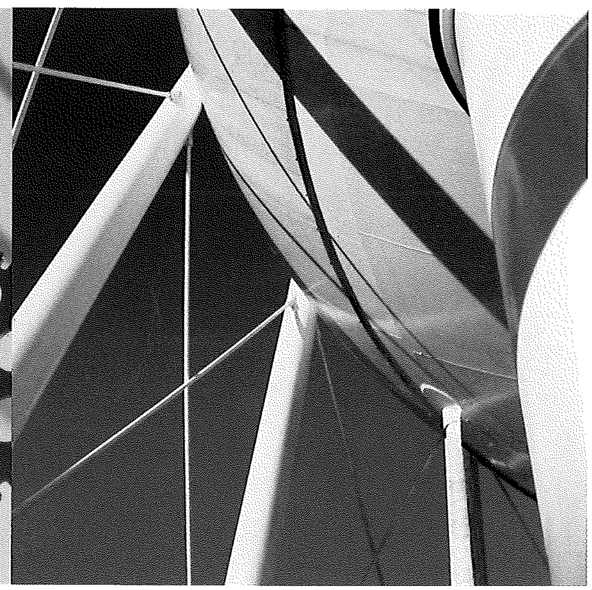

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AUTODESK 1998 ANNUAL REPORT

REAL SOLUTIONS FOR REAL MARKETS

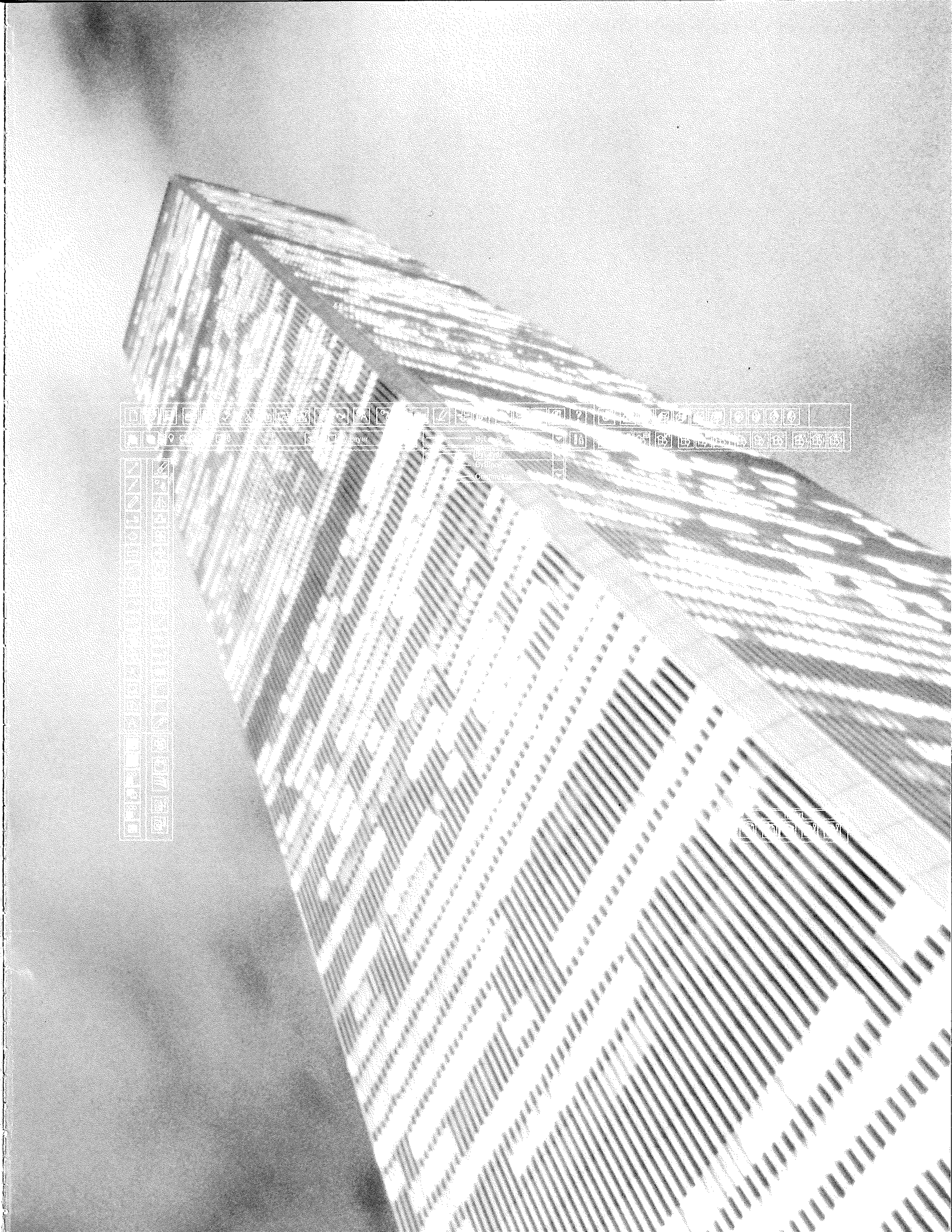
Highest revenue

growth

in five years

REAL SOLUTIONS FOR REAL MARKETS

Autodesk has completed the transition from providing one great design product to whole families of real solutions for real markets. Our customers can tackle the full spectrum of design activities—from sketching a **simple** floor plan for the home to managing a multinational enterprise's **complex** inventory of properties.



FISCAL YEAR 1998

HIGHLIGHTS

We are pleased to tell you about a remarkable year.

In fiscal year 1998 (FY98) we reestablished our reputation for high-quality design software, we demonstrated our leadership in design technology, and most important of all, we restored customer and partner confidence.

We grew our vertical-market customer base and won important major accounts in all our design markets in every region.

And we posted record revenues.

In last year's annual report, we spoke to you about our plan to relaunch Autodesk as a company that delights customers, outdistances the competition, and provides long-term stockholder value. This plan was not offered lightly, and our partners joined with every employee to embrace its challenges.

Today, we're very proud to report that we have executed on every one of our stated objectives.

We delivered a compelling, fast, and unquestionably high-quality AutoCAD® Release 14 product that delights design professionals. We developed and delivered families of software solutions for customers in specific design industries. We built Internet-enabled products with next-generation technologies and introduced the design paradigms of tomorrow. We even moved closer to just-in-time inventory, so we and our resellers could think less about supply and better concentrate on meeting customer demand.

We promised you that FY98 would be about performance. It was.

FY98 FINANCIAL HIGHLIGHTS

Net revenues grew 24 percent to $617.1 million. Excluding nonrecurring charges, diluted earnings per share rose more than 49 percent to approximately $1.45.

Geographically, net revenues for the Americas region reached a record $288 million. Despite changes in foreign currency exchange rates that pulled down overseas revenues by nearly $30 million, Europe grew 10 percent. Asia Pacific, handicapped by several troubled economies, maintained flat year-over-year revenues.

Customers purchased 244,000 new AutoCAD units, bringing the licensed base to nearly 1.9 million seats. Existing AutoCAD customers pushed upgrade revenues to a record $108 million, more than double the upgrade revenues of any previous fiscal year. Non-AutoCAD revenues climbed 24 percent and, against record AutoCAD sales, accounted for 30 percent of total company revenues.

The balance sheet remained very strong. Cash, cash equivalents, and marketable securities increased $15 million to $301 million, despite our repurchasing 5.3 million Autodesk shares for $175 million and our investing $21 million in strategic technologies and partnerships. The company reached record sales, low channel inventories, all-time high cash collections, and the lowest days sales outstanding in more than a decade.

CAROL BARTZ
Chief Executive Officer and Chairman of the Board

ERIC HERR
President and Chief Operating Officer

DIVERSIFICATION

If we can impress upon you one message about Autodesk's future, it is this: We are growing, and will continue to grow, in three important ways.

We are winning more AutoCAD customers.

We are providing more vertical-market solutions to an expanding AutoCAD customer base; these complementary products also help drive AutoCAD sales.

And with our new design technologies, we are reaching deeper into the design world to attract a previously untapped pool of customers.

There is no question that the May launch of AutoCAD Release 14, our foundation product, propelled the company's growth in FY98. It's a great self-contained productivity tool, fast and feature rich. And, with the breakthrough ObjectARX™ object-oriented programming environment, it is proving itself an even greater development platform. AutoCAD software's new-unit and upgrade sales worldwide remain at higher levels, a year after we first shipped it, than at the same point during any previous release cycle.

Yet you will see that the deeper story of FY98, and an even more powerful indicator of our financial future than the success of AutoCAD, is the success of our market diversification strategy.

MARKET FOCUS

If you have been with us for a while, you know that three years ago we reorganized the company into Market Groups. These independent internal organizations develop families of products that solve the myriad design challenges of customers in specific industries, or vertical markets. Simply put, design customers work in vertical markets—mechanical design, say, or mapping—and in FY98 we began to deliver the vertical-market solutions our customers want.

But we do not try to do it all. Our 2,600-strong developer partner network is taking advantage of our additional offerings, enlarging its range of specialty applications. This solution coverage helps us meet the needs of more customers more completely and further drives sales of Autodesk products.

You can count on more of the same in fiscal year 1999. We will continue to invest in our Market Groups and vertical-market product families. We will fully support our Market Groups by completing, worldwide, the vertical-market realignment of our sales force and our reseller and distribution channels. And as we extend our vertical-market solutions, our developer partners can increasingly share in, and promote, our success.

TECHNOLOGY LEADERSHIP

Of course, Autodesk technologies form the heart of our vertical-market solutions and are key to this year's growth as well as next year's opportunities.

Technology leadership gives our customers the best, most cost-effective solutions for the work they do today,

We sold more than 600,000 new software seats in FY98.

and it is why they are partnering with us to meet the design challenges of tomorrow. Bolstered by unprecedented investment in research and development and acquisitions in FY98, our technology leadership is stronger now, we feel, than at any time since the company's founding.

We can be even stronger in the years ahead. Our current development efforts center on three burgeoning areas—3D, object-oriented, and Internet technologies—because we believe these are the ones that will best serve the design world in the short and long term.

We will highlight specific product technologies for you when we discuss the Market Groups and the markets they serve later in the letter.

THE GLOBAL PICTURE

Our vertical-market strategy clearly sparked regional sales. Consider our Americas region. In FY97, the region completely restructured its sales force and its reseller and distribution channels along vertical-market lines. Able to effectively sell and support our full range of vertical-market solutions, the Americas, after years of modest growth, saw its revenues surge 54 percent to account for 47 percent of our FY98 total.

We expect to complete the vertical-market restructuring of the Europe and Asia Pacific regions this year. Presently, in Europe, AutoCAD Release 14 is selling extremely well and the vertical markets are healthy and getting stronger. As a result, we believe that the region is well poised to advance our vertical-market agenda in FY99.

Asia Pacific remains an open question. To limit our exposure, we pulled down channel inventory and reduced revenue goals early in the year. But several key countries, at least, appear sound. And sales of AutoCAD Release 14 in Asia Pacific are starting to take off; vertical-market revenues will not be far behind.

OUR VISION

Market focus, superior technologies, and a worldwide reach are powerful assets, but they do not guarantee success.

Our Market Groups have to broaden their product lines. We must continue to innovate on the Internet. We have to continually make our software easier to use, especially if we are to stay the volume leader in design software. We can never waver from keeping customer satisfaction at the forefront of all we do.

We know there are many challenges ahead. So we adhere to a business vision as simple as it is powerful: to deliver software that can help our customers solve *every* design challenge—whether they are creating, managing, or merely using and reusing design information, whether their project is simple or complex.

We are translating this vision into reality through our Market Groups.

Non-AutoCAD products generated 30 percent of FY98 revenues.

ARCHITECTURE, ENGINEERING, AND CONSTRUCTION

AEC: BUILDING BEYOND AUTOCAD

We have been meeting the needs of professionals in the AEC (architecture, engineering, and construction) industries since 1982—for as long as we have been making AutoCAD software. In fact, as you probably know, we created much of AutoCAD software's functionality with the AEC community in mind. When members of this group began telling us they needed more specialized, fully integrated design solutions, we knew we had to take AutoCAD to the next level of AEC functionality.

So in March 1997 we merged with the people and products of Softdesk, a leading Autodesk developer partner since 1987. Finding a better technological fit in AEC would be difficult: most of the acquired product line runs on top of AutoCAD and uses object-based technologies developed with our ObjectARX programming environment.

The merger reinvigorated and enlarged our AEC Market Group, which has begun delivering architectural design, civil engineering, surveying, imaging, and building services product families. Exactly what our customers need.

ENHANCING COLLABORATION

AEC design professionals are using our object technologies for greater efficiencies and to enhance collaboration. Objects encapsulate design information in modules that can be quickly rearranged and reused. These intelligent objects "know" what they are and how to behave; they can also contain attribute data, which customers can query. Equally important for the interdisciplinary AEC field, individual objects can be defined and published as information-sharing standards.

We are also harnessing another transformative technology, the Internet, for its powerful support of collaborative design.

Ford Motor Company, for example, adopted a solution based on AutoCAD Release 14 for design, layout, and analysis in its 185 plants in 30 countries. Using our software's built-in Internet publishing tools—which convert DWG files to our drawing Web format (DWF) for posting—Ford employees, Autodesk, and our worldwide partners are sharing information, ideas, and project drawings via the Ford project Web site. It's working beautifully.

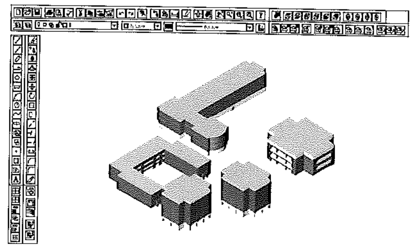
There is more ahead. In FY99 we plan to deliver two new object-based products—AutoCAD Architectural Desktop™ and AutoCAD Land Development™—that integrate AutoCAD Release 14 software with architectural, and civil engineering and surveying, capabilities. We expect these products to become platforms for a full range of other AEC-specific, vertical-market applications.

The AEC Market Group continues to share its object technologies with, and make use of component technologies from, other Market Groups. And you will see us aggressively moving our multiplying suite of AEC products into international markets.

Our traditional strength in AEC is fueling a revolution.

Sixty-one percent of all AIA member firms use AutoCAD software.*

*Source: American Institute of Architects Survey, 1997.



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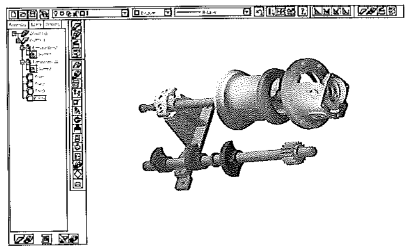
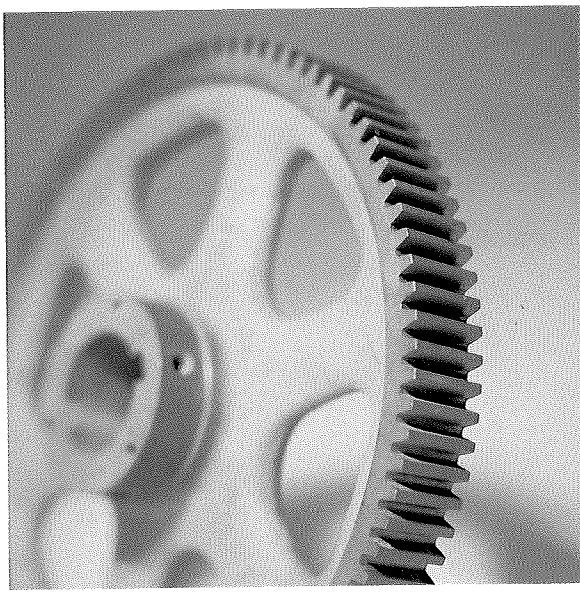
AEC INCLUDES ARCHITECTS AND CIVIL ENGINEERS, OF COURSE, AND ALSO PROFESSIONALS WORKING IN LAND SURVEYING, FACTORY DESIGN, INDUSTRIAL ENGINEERING, BUILDING SERVICES (HVAC, PIPING, PLUMBING, AND ELECTRICAL), PROCESS AND POWER, PLANT DESIGN, AND FACILITIES MANAGEMENT.





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MCAD CUSTOMERS DESIGN, ANALYZE, MANUFACTURE, AND DOCUMENT COMPONENTS AND COMPLEX ASSEMBLIES FOR USE IN INDUSTRIES INCLUDING INDUSTRIAL MACHINERY, ELECTROMECHANICAL DESIGN, AND TOOLING AND FIXTURE DESIGN.

MECHANICAL COMPUTER-AIDED DESIGN

MCAD: GAINING VELOCITY

This past year our efforts in the $3.5 billion MCAD (mechanical computer-aided design) market really began to come together.

We know mechanical customers want to reduce cycle times. Since forming the MCAD Market Group three years ago, we have kept that goal in mind as we built a world-class development team, acquired other companies and technologies, and established strategic partnerships. The result: we are winning customers today we could not have attracted just two years ago. And we are successfully converting our installed mechanical user base—more than 600,000 Autodesk seats—to our next-generation products.

Most mechanical-design customers need robust 3D *and* 2D tools. Our software provides both. The well-deserved popularity of 3D MCAD technologies does not diminish the role of 2D drafting and 2D legacy drawings; they remain the backbone of mechanical design. That is as true for small subcontractors as it is for giant customers such as the ABB Group, General Electric Company, Parker Hannifin Corporation, and Toshiba, Inc.

Our software also provides a consistent environment for the entire design-through-manufacturing process. For several years we have recruited Mechanical Applications Initiative (MAI) partners to integrate their best-in-class mechanical programs with our software. This year we carefully expanded the MAI network to 17 industry-leading partners.

GEARING UP FOR THE FUTURE

In FY98 the MCAD Market Group doubled the user base for its premier product, Mechanical Desktop® solid modeling software running on Windows® 95 and Windows NT®. Its more than 60,000 seats, gained in just two years, put us in a position to challenge the traditional dominance of Unix-based solid modelers. Even more encouraging, large customers are signing on in greater numbers. We already have multiple 100-seat installations and are looking into opportunities for accounts as large as 1,000 seats. This is only the beginning.

Because Mechanical Desktop 2.0 routinely wins in competitive benchmark situations—thanks in part to its advanced ACIS® 3.0 modeling engine—we believe it will outsell previous releases. The next release, Mechanical Desktop 3.0, could achieve even greater success: it will ship in FY99 with the ACIS 4.0 engine and a host of features optimized for use in the consumer products and mold-and-die industries.

We are also investing in the future. Our growing staff of 140-plus engineers at seven development sites helped us file 16 patent applications and records of inventions in FY98 alone. You can count on these technologies further reducing cycle times and winning us more customers in the coming years.

In the MCAD market, hard work pays off.

Two years—60,000 Mechanical Desktop customers.

GEOGRAPHIC INFORMATION SYSTEMS

GIS: COMING ON STRONG

In last year's report, we urged you to watch our GIS (geographic information systems) Market Group. We hope you took our advice.

Our product line can now address nearly the full spectrum of GIS and mapping functions. And in the expanding GIS market we are gaining a greater share of the fastest growing segments by far, the Windows and Windows NT platforms.

We believe we have the technologies and business model to sustain, even accelerate, our GIS growth in the coming years. Here's why: most enterprises depend on information with a location-based component—latitudes and longitudes, street addresses, postal codes, floor and room numbers—but this vast store of spatial data remains locked within the proprietary file formats, complex software programs, and expensive hardware of entrenched vendors. Our software unlocks it.

For example, we eliminated the GIS community's number one problem—systems that do not interoperate, data that cannot travel—by founding our product line on data integration.

Our broader objective, however, extends beyond the specialized concerns of GIS professionals. We plan to deliver spatial data to *everyone* who wants to access, create, analyze, communicate with, and manage it. We call this notion "bringing information down to earth™." You might call it good business.

PRODUCTS FOR THE ENTIRE WORKFLOW

All of our GIS products debuted within the last two years, but they are already transforming this marketplace.

AutoCAD Map® software, whose customer base grew from 4,000 to more than 30,000 in FY98, is becoming the industry-standard CAD tool for creating and maintaining digital maps.

To query, integrate, and analyze spatial and related data of all kinds without conversion, we offer Autodesk World™ software, the first in its field to be fully compliant with Microsoft® Office 97.

Innovative and affordable Autodesk MapGuide™ software supports live, interactive maps over the Internet, the only currently available GIS product to do so.

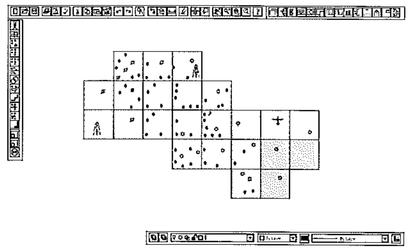
We are winning global accounts with governments and with multinational corporations such as Sprint Communications Company, which uses all three of our GIS products.

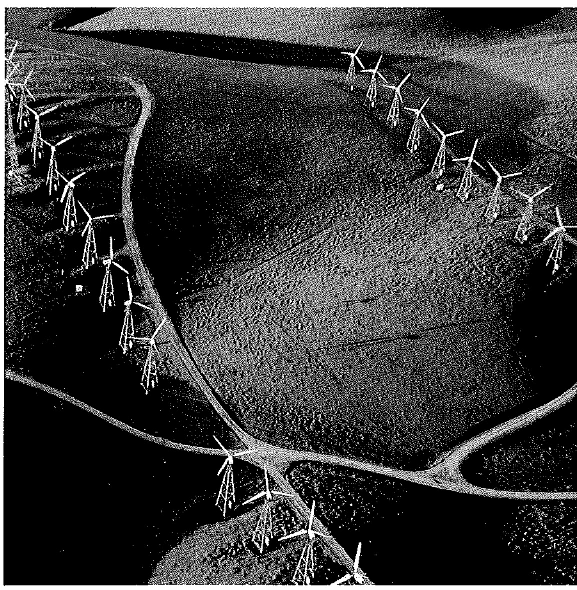
To strengthen our product line, we are integrating it with complementary technologies such as Oracle Corporation's Spatial Cartridge technology and Allaire Corporation's Cold Fusion® development system.

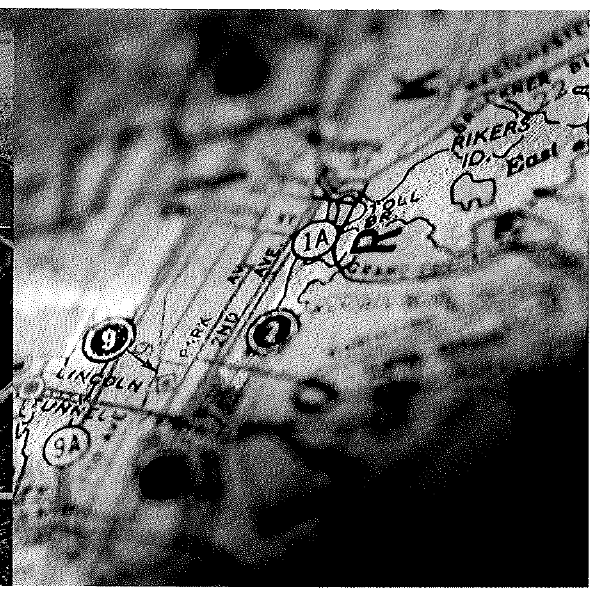
As the industry grows, so does our GIS Market Group—from 7 people to nearly 200 in less than three years. We will continue to aggressively invest in new GIS opportunities to move this industry from high-end, closed products to powerful, PC-based solutions.

There is no mistaking our GIS commitment now.

Our GIS revenues more than tripled in FY98.







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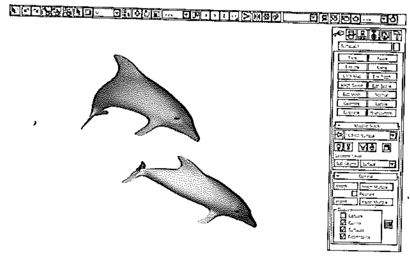
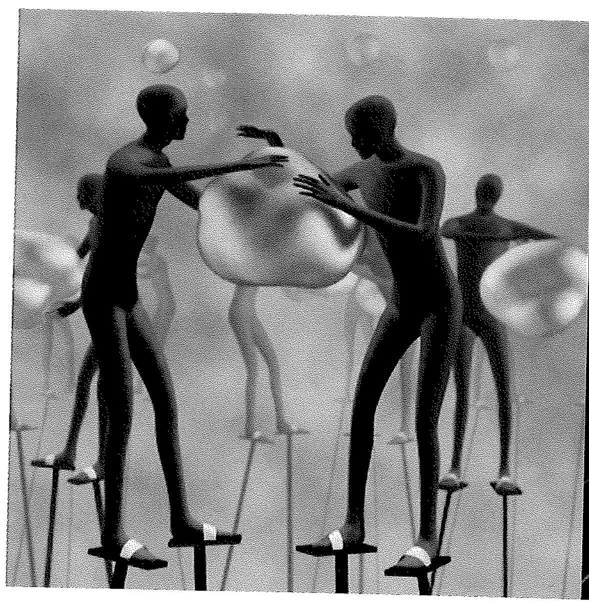
GIS AND MAPPING TOOLS HELP PEOPLE CREATE, ACCESS, ANALYZE, MANAGE, AND COMMUNICATE SPATIAL DATA EFFICIENTLY. VIRTUALLY EVERY ENTERPRISE RELIES ON INFORMATION WITH A LOCATION-BASED COMPONENT—LATITUDE AND LONGITUDE, ADDRESS, POSTAL CODE.





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KINETIX SOFTWARE HELPS CUSTOMERS PRODUCE SPECIAL EFFECTS FOR USE IN FILM, VIDEO, AND BROADCAST TELEVISION; CREATE INTERACTIVE 3D GAMES AND CONTENT FOR THE WORLD WIDE WEB; AND VISUALIZE CAD DRAWINGS AND ADD FLY-BYS AND WALK-THROUGHS TO PRESENTATIONS.

KINETIX: OPENING NEW MARKETS

Clearly, the 3D animation and visualization technologies from Kinetix, Autodesk's multimedia division, are market favorites. Yet, to our frustration, Kinetix has had only limited success penetrating the larger population of CAD professionals.

In FY98 we took a big step forward with 3D Studio VIZ™ software. It enables architects and engineers to visualize their finished designs and to add realistic 3D fly-bys and walk-throughs to their presentations. We based it on 3D Studio MAX® animation technologies for power, but also made it simple (some say fun) to use. The software's critical and commercial success suggests that we got it right. We will ship 3D Studio VIZ Release 2 in FY99.

We are gratified, too, that 3D Studio MAX remains the leading tool for developing 3D games and interactive content. Also, the timing could not be better for its move into film, video, and broadcast. The entertainment industry is converting to Windows-based animation solutions even as it discovers the benefits—including low cost, quick production, and reusability—of animations such as Dancing Baby.

THAT BABY CAN DANCE

As literally millions of people now know, the Dancing Baby animation—created with 3D Studio MAX and its Character Studio™ plug-in—gained fame on the Internet before leaping to prime-time TV. We value the unprecedented publicity it has brought us, yet more important, Dancing Baby demonstrates the Internet's nascent power to cross-fertilize other media and it proves that special effects can succeed outside big-budget movies and science-fiction shows.

We shipped 3D Studio MAX Release 2 in October with more than 1,000 new features. It has won numerous awards, and you can see its dazzling effects in big-screen movies (*Lost in Space*), cartoons ("Van-Pires"), commercials ("Cap'n Crunch"), video games (Quake), and TV coverage of the 1998 Winter Olympic Games (Ergoman). We will ship 3D Studio MAX Release 2.5, with crucial film and video features, and Character Studio Release 2, with true motion-capture capabilities, later this year.

We have owned the marketing rights to 3D Studio MAX for many years. This past year we also acquired the technology rights—and, significantly, renewed our great joint-development relationship with developer partner The Yost Group. This technology acquisition helps ensure that Kinetix maintains its technology leadership, allows us to incorporate 3D Studio MAX technologies into other Autodesk products, and positions us to create easier-to-use tools that fit even better within our customers' workflow.

The audience for Kinetix software, which helps people create content for *all* media and brings visualization tools to *all* designers, continues to expand.

Award-winning software,
$33 million in revenues,
a growing market.

PERSONAL SOLUTIONS GROUP

PSG: EXTENDING SOLUTIONS

We've saved the newest for last.

We formed the Personal Solutions Group (PSG) because our most important business goal, after delighting customers with high-quality software, is to increase revenues by increasing volume sales. In the hotly contested broad-based CAD and consumer software arena, PSG accounted for revenues of more than $90 million in FY98 and enlarged its customer base to 1.3 million.

You see, with PSG's well-priced and easy-to-use design, drafting, drawing, and diagramming products, Autodesk can reach everyone from the professional designer to the home hobbyist.

This audience includes consumers who need a stand-alone product to fulfill an occasional design need. And it includes the many Autodesk customers who wish to add enterprisewide depth and breadth—from conceptualization through management—to their current design solutions. We will ship one such tool, a diagramming package code-named "Homer," in FY99.

PSG products extend the coverage of our design solutions matrix. Our goal is to grow the Autodesk product family into a complete array of total design solutions, at numerous price points, across all vertical design markets and the horizontal consumer market as well.

FAMILIAR TERRITORY

It's a new Market Group but a well-established market for Autodesk.

You can trace our track record in broad-based CAD back to 1986, when we began shipping AutoSketch® software; we shipped Release 5.0 in November. And we introduced sub-$500 AutoCAD LT® software in 1993. Partly on the strength of AutoCAD LT 97, which stands out as the only CAD product fully compatible with AutoCAD Release 14, the installed base for our second-highest revenue generator grew 40 percent to 630,000 customers this past year.

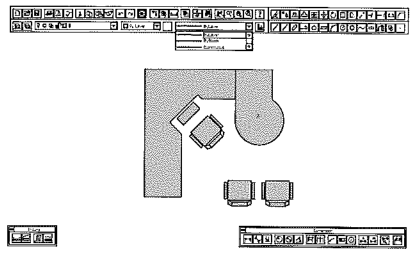
We make sure all PSG products benefit from the high-end Autodesk technologies they draw upon and our 15 years of CAD expertise. So besides simplicity, a consistent Windows look and feel, standard file formats, modern Internet accessibility, and competitive pricing, every PSG product offers the tools required for completing a job.

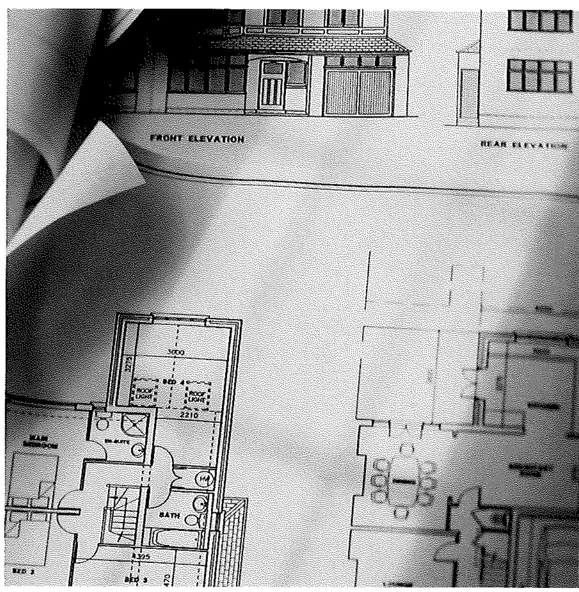
Fundamentally, even our consumer applications—such as Planix® Home Designer 3D Deluxe, which includes 3D walk-through capabilities, and the highly graphical Picture This Home!® series—succeed because of their technological, problem-solving superiority.

Perhaps more than our other Market Groups, PSG functions as an independent, customer-centric, fast-moving entrepreneurial enterprise. We will continue to explore, create, and capitalize on opportunities in new and established markets, diversifying PSG's offerings as we go.

At Autodesk the startup spirit remains alive and well.

Personal Solutions customers: 1.3 million strong and growing.





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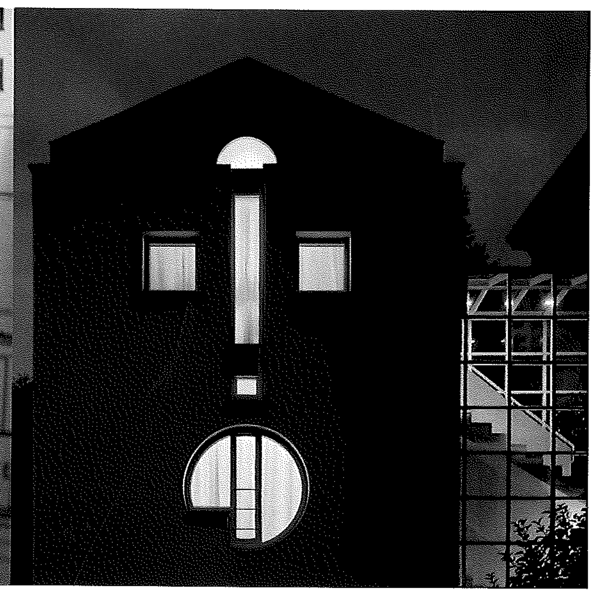

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PSG PROVIDES INNOVATIVE, AFFORDABLE, EASY-TO-USE DESIGN AND GRAPHICS SOFTWARE TOOLS FOR THE OCCASIONAL CAD USER—WHETHER THAT PERSON IS A PROFESSIONAL DESIGNER OR A CONSUMER.


View
View
Surface01
Twist
Noise
NURBS Surface
Selection Level
Sub-Object
Surface
General
Attach Multiple
Reorient

A FINAL THOUGHT

Market Group **growth** stands as Autodesk's number one FY99 priority and best long-term **opportunity.** That is how we will win more AutoCAD customers, sell more vertical-market products, and attract more first-time customers. It is how we can achieve solid revenue growth and surpass the 600,000 new software seats we sold last year. And it is why we are calling FY99 the Year of the Market Group.

Carol Bartz
Chief Executive Officer and
Chairman of the Board

Eric Herr
President and
Chief Operating Officer

FINANCIAL REVIEW

SELECTED FIVE-YEAR FINANCIAL DATA

	Fiscal year ended January 31,				
(In thousands, except per share data, percentages, and employees)	1998	1997[1]	1996[1]	1995[1]	1994
FOR THE FISCAL YEAR					
Net revenues	$617,126	$496,693	$534,167	$454,612	$405,596
Cost of revenues	70,858	64,217	66,812	61,725	63,338
Marketing and sales	237,107	199,939	183,550	154,562	137,788
Research and development	122,432	93,702	78,678	65,176	56,231
General and administrative	83,287	74,280	76,100	65,738	58,536
Nonrecurring charges[2]	58,087	4,738	—	25,500	—
Income from operations	45,355	59,817	129,027	81,911	89,703
Interest and other income, net	9,644	6,695	9,253	7,233	7,055
Income before income taxes	54,999	66,512	138,280	89,144	96,758
Net income	15,364	41,571	87,788	56,606	62,166
Net cash provided by operating activities	158,612	114,183	106,632	104,412	88,853
AT YEAR END					
Cash, cash equivalents, and marketable securities	$301,319	$286,308	$272,402	$255,373	$217,011
Current assets	307,702	297,671	335,013	360,725	279,557
Total assets	533,683	492,233	517,929	482,076	404,874
Current liabilities	199,487	150,171	144,295	154,990	102,316
Long-term liabilities	31,064	33,948	31,306	3,602	5,679
Total liabilities	230,551	184,119	175,601	158,592	107,995
Put warrants	—	64,500	—	—	—
Stockholders' equity	303,132	243,614	342,328	323,484	296,879
Working capital	108,215	147,500	190,718	205,735	177,241
Number of employees	2,470	2,044	1,894	1,788	1,788
COMMON STOCK DATA					
Basic net income per share[2,3]	$ 0.33	$ 0.91	$ 1.86	$ 1.20	$ 1.30
Diluted net income per share[2,3]	$ 0.31	$ 0.88	$ 1.76	$ 1.14	$ 1.25
Book value per share	$ 6.67	$ 5.40	$ 7.39	$ 6.85	$ 6.25
Dividends paid per share	$ 0.24	$ 0.24	$ 0.24	$ 0.24	$ 0.24
Shares used in computing basic net income per share[3]	46,760	45,540	47,090	47,320	47,770
Shares used in computing diluted net income per share[3]	49,860	47,190	49,800	49,840	49,740
Shares outstanding at year end	45,465	45,108	46,351	47,241	47,480
FINANCIAL RATIOS					
Current ratio	1.5	2.0	2.3	2.3	2.7
Return on net revenues[2]	2.5%	8.4%	16.4%	12.5%	15.3%
Return on average assets[2]	3.0%	8.2%	17.6%	12.8%	16.3%
Return on average stockholders' equity[2]	5.6%	14.2%	26.4%	18.2%	22.0%
GROWTH PERCENTAGES					
Net revenues	24.2%	(7.0%)	17.5%	12.1%	14.8%
Net income[2]	(63.0%)	(52.6%)	55.1%	(8.9%)	41.7%
Basic net income per share[2,3]	(63.7%)	(51.1%)	55.0%	(7.7%)	42.9%
Diluted net income per share[2,3]	(64.8%)	(50.0%)	54.4%	(8.8%)	42.0%

[1] *Certain reclassifications have been made to the 1997, 1996, and 1995 amounts presented herein to conform to the 1998 presentation.*

[2] *Amounts include the effects of nonrecurring charges of $58.1 million, $4.7 million, and $25.5 million recorded in fiscal years 1998, 1997, and 1995, respectively. Nonrecurring charges consist of charges for purchased in-process research and development from business acquisitions in fiscal years 1998 and 1997. The fiscal year 1995 amount represents a legal judgment against the Company.*

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

RESULTS OF OPERATIONS

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

	Fiscal year ended January 31,		
	1998	1997	1996
Net revenues	100%	100%	100%
Costs and expenses:			
Cost of revenues	12	13	13
Marketing and sales	38	40	34
Research and development	20	19	15
General and administrative	14	15	14
Nonrecurring charges	9	1	—
Total costs and expenses	93	88	76
Income from operations	7	12	24
Interest and other income, net	2	1	2
Income before income taxes	9	13	26
Provision for income taxes	6	5	9
Net income	3%	8%	17%

NET REVENUES

Autodesk's consolidated net revenues in fiscal year 1998 were $617.1 million, which represented a 24.2 percent increase from fiscal year 1997 net revenues of $496.7 million. Revenues in the Americas and Europe increased $101.0 million or 54 percent and $19.3 million or 10 percent, respectively, from the prior fiscal year, while remaining flat in Asia Pacific. These increases were due largely to higher sales of AutoCAD® software, the Company's flagship product, and significant growth in the Company's market group revenues. The most recent release of AutoCAD software, AutoCAD Release 14 ("AutoCAD R14"), was released in the United States in May 1997 and in most other regions shortly thereafter. Also contributing to the increased revenues in fiscal year 1998 were revenues contributed by Softdesk, which was acquired by the Company in March 1997. Net revenues in fiscal year 1997 decreased 7 percent from the $534.2 million posted in fiscal year 1996, reflecting primarily slowdowns in the US dealer channel, Germany, Switzerland, and France. The lower fiscal 1997 revenues reflected slowing sales of AutoCAD and AutoCAD update software as the then most recent version of the product, Release 13, entered the end of its product life cycle.

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

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

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

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

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

COST OF REVENUES

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

MARKETING AND SALES

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

RESEARCH AND DEVELOPMENT

Research and development expenses consist primarily of salaries and benefits for software engineers, contract development fees, expenses associated with product translations, costs of computer equipment used in software development, and facilities expenses. During fiscal years 1998, 1997, and 1996, Autodesk incurred $122.4 million, $93.7 million, and $78.7 million, respectively, of research and development expenses (excluding capitalized software development costs of $2.2 million during fiscal year 1998; no software development costs were capitalized during fiscal years 1997 and 1996). Research and development expenses increased both in absolute dollars and as a percentage of net revenues in fiscal year 1998 due to the addition of software engineers, expenses associated with the development of new and enhanced products, and incremental research and development personnel expenses associated with the March 1997 business combination with Softdesk. The increase in research and development expenses between fiscal years 1996 and 1997 was due to the addition of software engineers and fiscal year 1997 business combinations. The Company anticipates that research and development expenses will increase in fiscal year 1999 as a result of product development efforts by the Company's market groups and incremental personnel costs. Additionally, the Company intends to continue recruiting and hiring experienced software developers and to consider the licensing and acquisition of complementary software technologies and businesses.

GENERAL AND ADMINISTRATIVE

General and administrative expenses include the Company's information systems, finance, human resources, legal, purchasing, and other administrative operations. Fiscal year 1998 general and administrative expenses of $83.3 million increased 12 percent from the $74.3 million recorded in the prior fiscal year, primarily due to higher employee-related costs and amortization expense associated with intangible assets recorded in connection with the acquisition of Softdesk, Inc. Fiscal year 1997 general and administrative expenses decreased 2 percent from fiscal year 1996 spending of $76.1 million reflecting lower professional fees, partially offset by increased expenses to maintain and expand the Company's worldwide information systems. The Company currently expects that general and administrative expenses in the coming year will increase to support spending on infrastructure, including continued investment in Autodesk's worldwide information systems and making any additional corrections to the Company's hardware, software, and products for compliance in the year 2000.

NONRECURRING CHARGES

Nonrecurring charges represent charges for purchased in-process research and development associated with the Company's acquisition of Softdesk, Inc. ($55.1 million) and licensing of 3D/Eye technology ($3.0 million) in fiscal year 1998 and acquisitions of Teleos Research ($3.2 million) and Argus Technologies, Inc. ($1.5 million) in fiscal year 1997. For additional information, see "Business Combinations" in Note 1 of the consolidated financial statements.

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

INTEREST AND OTHER INCOME

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

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

PROVISION FOR INCOME TAXES

Autodesk's effective income tax rate, excluding one-time charges for acquired in-process research and development associated with the March 1997 acquisition of Softdesk and fiscal year 1997 acquisitions, was 36.0 percent in fiscal year 1998 compared to 35.5 percent and 36.5 percent in fiscal years 1997 and 1996, respectively. The increase in the effective income tax rate in fiscal year 1998 compared to fiscal year 1997 was principally due to the amortization of certain intangible assets not deductible for tax purposes and foreign earnings which are taxed at rates different than the US statutory rate. The decrease in the tax rate between fiscal years 1997 and 1996 was due largely to a decrease in the Company's effective state income tax rate. See Note 3 to the consolidated financial statements for an analysis of the differences between the US statutory and the effective income tax rates.

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

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"), which establishes standards for reporting and displaying comprehensive income and its components in a full set of general-purpose financial statements and which 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 Company is currently evaluating the impact of SFAS 130 and SFAS 131 on its financial disclosures.

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

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

CERTAIN RISK FACTORS WHICH MAY IMPACT FUTURE OPERATING RESULTS

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

COMPETITION

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

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

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

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

FLUCTUATIONS IN QUARTERLY OPERATING RESULTS

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

The technology industry is particularly susceptible to fluctuations in operating results within a quarter. While the Company experienced more linear operating results within fiscal year 1998 compared to prior years, historically the majority of the Company's orders within a fiscal quarter have frequently been concentrated within the last weeks or days of that quarter. These fluctuations are caused by a number of factors, including the relatively long sales cycle of some of the Company's products, the timing of the introduction of new products by the Company or its competitors, and other economic factors experienced by the Company's customers and the geographic regions in which the Company does business. Additionally, the Company's operating expenses are based in part on its expectations for future revenues and are relatively fixed in the short term. Accordingly, any revenue shortfall below expectations could have an immediate and significant adverse effect on the Company's consolidated results of operations and financial condition.

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

PRODUCT CONCENTRATION

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

PRODUCT DEVELOPMENT AND INTRODUCTION

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

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

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

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

INTERNATIONAL OPERATIONS

The Company anticipates that international operations will continue to account for a significant portion of its consolidated revenues. Risks inherent in the Company's international operations include the following: unexpected changes in regulatory practices and tariffs; difficulties in staffing and managing foreign operations; longer collection cycles; potential changes in tax laws; greater difficulty in protecting intellectual property; and the impact of fluctuating exchange rates between the US dollar and foreign currencies in markets where Autodesk does business. During fiscal year 1998, changes in exchange rates from the same period of the prior fiscal year adversely impacted revenues, principally due to changes in the Japanese yen and the German mark. As more fully described in Note 2 to the consolidated financial statements, the Company's risk management strategy uses derivative financial instruments in the form of forward foreign exchange contracts for the purpose of hedging foreign currency market exposures of underlying assets, liabilities, and other obligations which exist as a part of its ongoing business operations. The Company does not enter into derivative contracts for the purpose of trading or speculative transactions. The Company's international results may also be impacted by general economic and political conditions in these foreign markets, including the ongoing economic volatility loss of licenses to, or inability to support, maintain, and enhance any such software, could result in increased costs, or in delays or reductions in product shipments until equivalent software could be developed, identified, licensed, and integrated, which could have a material adverse effect on the Company's business and consolidated results of operations.

RISKS ASSOCIATED WITH ACQUISITIONS AND INVESTMENTS

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

During the first quarter of fiscal year 1998, the Company completed its acquisition of all of the outstanding stock of Softdesk, Inc. The Company continues to integrate the operations acquired in the Softdesk merger with its own. There can be no assurance that the anticipated benefits of the Softdesk merger and any future mergers or acquisitions will be realized.

ATTRACTION AND RETENTION OF EMPLOYEES

The continued growth and success of the Company depends significantly on the continued service of highly skilled employees. Competition for these employees in today's marketplace, especially in the technology industries, is intense. The Company's ability to attract and retain employees is dependent on a number of factors including its continued ability to grant stock incentive awards, which are described in more detail in Note 6 to the consolidated financial statements. There can be no assurance that the Company will be successful in continuing to recruit new personnel and to retain existing personnel. The loss of one or more key employees or the Company's inability to maintain existing employees or recruit new employees could have a material adverse impact on the Company. In addition, the Company may experience increased compensation costs to attract and retain skilled personnel.

IMPACT OF YEAR 2000

Some of the computer programs used by the Company in its internal operations rely on time-sensitive software that was written using two digits rather than four to identify the applicable year. These programs may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities. Additionally, as the Company is in the business of software production, year 2000 issues may affect the Company's products which are being sold externally.

The Company launched a six-phase year 2000 compliance program in the third quarter of fiscal year 1998. The first and second phases, respectively, included conducting preliminary and detailed assessments of vendor hardware and software to determine the Company's overall exposure to the year 2000 issue. The third phase included implementing a year-2000-compliant procurement process and testing the current desktop operating environment. These three phases were complete as of the end of fiscal year 1998 and cost approximately $500,000. These costs have been charged to expense as incurred.

The fourth phase of the compliance program involves determining a working plan, including defining the future analyses needed, the scope, and total budget for required compliance actions. The fifth phase involves the repair or replacement of any noncompliant hardware or software currently purchased or developed internally. The sixth and final phase will involve a final systems check to ensure that all hardware and software in use by the Company is compliant. The Company expects to spend between $5 million and $6 million during fiscal year 1999 to complete phases four, five, and six. Of the total cost, Autodesk plans to capitalize up to $1.7 million as it relates primarily to the purchase of new software. The remaining $3.3 million to $4.3 million relates to modifying existing software and will be expensed as incurred in accordance with EITF 96-14, "Accounting for the Costs Associated with Modifying Computer Software for the Year 2000." There can be no assurance, however, that there will not be a delay in the completion of these procedures or that the cost of such procedures will not exceed original estimates, either of which could have a material adverse effect on future results of operations.

In addition to correcting the business and operating systems used by the Company in the ordinary course of business as described above, the Company has also reviewed all products it produces internally for sale to third parties to determine compliance of its products. Products either have been found to be compliant or are currently being tested for compliance. However, many Autodesk® products run on application systems produced and sold by third-party vendors. There can be no assurance that these application systems will be converted in a timely manner, and any failure in this regard may cause Autodesk products not to function as designed. Any future costs associated with ensuring that the Company's products are compliant with the year 2000 are not expected to have a material impact on the Company's results of operations or financial position. The Company anticipates that all compliance procedures will be completed before the beginning of the Company's fiscal year 2000, which begins February 1, 1999.

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

In connection with the Supplemental Plan, the Company sold put warrants to an independent third party in September 1996 and purchased call options from the same independent third party. The premiums received with respect to the equity options equaled the premiums paid. Consequently, there was no exchange of cash. The Company exercised the call options, repurchasing 2,000,000 shares of its common stock during the third quarter of fiscal year 1998 for $51 million. The put warrants expired unexercised in September 1997 and were reclassified from put warrants to stockholders' equity during the third quarter of fiscal year 1998. For additional information, see Note 7 to the consolidated financial statements. In addition to the exercise of the call options in fiscal year 1998, the Company repurchased an additional 1,000,000 shares in the open market at an average per share repurchase price of $34.37. During fiscal year 1997, the Company repurchased 557,500 shares at an average per share repurchase price of $24.09 subject to the Supplemental Plan.

In December 1997, the Company sold put warrants to an independent third party that entitle the holder of the warrants to sell 1.5 million shares of common stock to the Company at $38.12 per share. Additionally, the Company purchased call options from the same independent third party that entitle the Company to buy 1 million shares at $39.88 per share. The premiums received with respect to the equity options totaled $4.5 million and equaled the premiums paid. Consequently, there was no exchange of cash. The outstanding put warrants at January 31, 1998, permitted a net share settlement at the Company's option. As a result, the transaction did not result in a put warrant liability on the consolidated balance sheet.

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

The Company's principal commitments at January 31, 1998, consisted of obligations under operating leases for facilities. For additional information, see Note 5 to the consolidated financial statements.

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.

CONSOLIDATED STATEMENT OF INCOME

(In thousands, except per share data)	Fiscal year ended January 31, 1998	1997	1996
Revenues	$632,358	$509,630	$546,884
Direct commissions	15,232	12,937	12,717
Net revenues	617,126	496,693	534,167
Costs and expenses:			
Cost of revenues	70,858	64,217	66,812
Marketing and sales	237,107	199,939	183,550
Research and development	122,432	93,702	78,678
General and administrative	83,287	74,280	76,100
Nonrecurring charges	58,087	4,738	—
Total costs and expenses	571,771	436,876	405,140
Income from operations	45,355	59,817	129,027
Interest and other income, net	9,644	6,695	9,253
Income before income taxes	54,999	66,512	138,280
Provision for income taxes	39,635	24,941	50,492
Net income	$ 15,364	$ 41,571	$ 87,788
Basic net income per share	$ 0.33	$ 0.91	$ 1.86
Diluted net income per share	$ 0.31	$ 0.88	$ 1.76
Shares used in computing basic net income per share	46,760	45,540	47,090
Shares used in computing diluted net income per share	49,860	47,190	49,800

See accompanying notes.

CONSOLIDATED BALANCE SHEET

(In thousands)	January 31, 1998	1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 96,089	$ 64,814
Marketable securities	100,399	117,971
Accounts receivable, net of allowance for doubtful accounts of $7,136 ($6,635 in 1997)	60,856	68,577
Inventories	7,351	7,340
Deferred income taxes	27,577	22,759
Prepaid expenses and other current assets	15,430	16,210
Total current assets	307,702	297,671
Marketable securities, including a restricted balance of $18,000 ($28,000 in 1997)	104,831	103,523
Computer equipment, furniture, and leasehold improvements:		
Computer equipment and furniture	117,434	103,903
Leasehold improvements	20,505	17,818
Accumulated depreciation	(98,800)	(77,671)
Net computer equipment, furniture, and leasehold improvements	39,139	44,050
Purchased technologies and capitalized software, net of accumulated amortization of $31,400 ($18,700 in 1997)	31,553	15,916
Goodwill	16,995	6,470
Deferred income taxes	13,782	12,857
Other assets	19,681	11,746
	$533,683	$492,233
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 26,417	$ 24,557
Accrued compensation	34,962	18,099
Accrued income taxes	76,465	75,061
Deferred revenues	18,934	3,141
Other accrued liabilities	42,709	29,313
Total current liabilities	199,487	150,171
Deferred income taxes	481	2,974
Litigation accrual	29,328	29,328
Other liabilities	1,255	1,646
Commitments and contingencies		
Put warrants	—	64,500
Stockholders' equity:		
Common stock, $0.01 par value; 100,000 shares authorized, 45,465 issued and outstanding (45,108 in 1997)	299,315	147,091
Retained earnings	20,472	106,587
Foreign currency translation adjustment	(16,655)	(10,064)
Total stockholders' equity	303,132	243,614
	$533,683	$492,233

See accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands)	Fiscal year ended January 31, 1998	1997	1996
OPERATING ACTIVITIES			
Net income	$ 15,364	$ 41,571	$ 87,788
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	43,854	34,833	25,247
Charge for acquired in-process research and development	58,087	4,738	—
Changes in operating assets and liabilities, net of business combinations:			
Accounts receivable	8,829	25,365	(7,579)
Inventories	534	2,345	(3,850)
Deferred income taxes	(10,947)	(785)	(4,567)
Prepaid expenses and other current assets	1,501	890	(6,443)
Accounts payable and accrued liabilities	40,125	(4,318)	3,721
Accrued income taxes	1,265	9,544	12,315
Net cash provided by operating activities	158,612	114,183	106,632
INVESTING ACTIVITIES			
Purchases of available-for-sale marketable securities	(1,102,015)	(683,550)	(224,655)
Maturities of available-for-sale marketable securities	1,126,174	604,727	141,893
Purchase of computer equipment, furniture, and leasehold improvements	(15,000)	(17,409)	(16,306)
Business combinations, net of cash acquired	(5,766)	(9,908)	(7,194)
Purchases of software technologies and capitalization of software costs	(19,833)	(995)	(1,409)
Other	(4,759)	(16,698)	8,042
Net cash used by investing activities	(21,199)	(123,833)	(99,629)
FINANCING ACTIVITIES			
Proceeds from issuance of common stock	80,059	23,307	46,424
Repurchase of common stock	(174,907)	(67,269)	(107,976)
Dividends paid	(11,290)	(10,879)	(11,184)
Net cash used in financing activities	(106,138)	(54,841)	(72,736)
Net increase (decrease) in cash and cash equivalents	31,275	(64,491)	(65,733)
Cash and cash equivalents at beginning of year	64,814	129,305	195,038
Cash and cash equivalents at end of year	$ 96,089	$ 64,814	$129,305
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Common stock issued in connection with the acquisition of Softdesk	$ 92,021	$ —	$ —

See accompanying notes.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Three-year period ended January 31, 1998				
	Common stock			Foreign currency	Total
(In thousands)	Shares	Amount	Retained earnings	translation adjustment	stockholders' equity
Balances, January 31, 1995	47,241	$100,870	$215,064	$ 7,550	$323,484
Common shares issued under stock option and stock purchase plans	1,781	35,712			35,712
Tax effect of stock options		10,712			10,712
Net income			87,788		87,788
Dividends paid			(11,184)		(11,184)
Repurchase of common shares	(2,671)	(6,529)	(101,447)		(107,976)
Foreign currency translation adjustment				2,904	2,904
Unrealized gains on available-for-sale securities, net of tax			888		888
Balances, January 31, 1996	46,351	140,765	191,109	10,454	342,328
Common shares issued under stock option and stock purchase plans	974	20,729			20,729
Tax effect of stock options		2,578			2,578
Reclassification of put warrants		(9,870)	(54,630)		(64,500)
Net income			41,571		41,571
Dividends paid			(10,879)		(10,879)
Repurchase of common shares	(2,217)	(7,111)	(60,158)		(67,269)
Foreign currency translation adjustment				(20,518)	(20,518)
Unrealized losses on available-for-sale securities, net of tax			(426)		(426)
Balances, January 31, 1997	45,108	147,091	106,587	(10,064)	243,614
Common shares issued under stock option and stock purchase plans	2,790	63,829			63,829
Tax effect of stock options		16,230			16,230
Reclassification of put warrants		9,870	54,630		64,500
Shares issued in connection with business combination	2,900	92,021			92,021
Net income			15,364		15,364
Dividends paid			(11,290)		(11,290)
Repurchase of common shares	(5,333)	(29,726)	(145,181)		(174,907)
Foreign currency translation adjustment				(6,591)	(6,591)
Unrealized gains on available-for-sale securities, net of tax			362		362
Balances, January 31, 1998	45,465	$299,315	$ 20,472	$(16,655)	$303,132

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS

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

PRINCIPLES OF CONSOLIDATION

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

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

BUSINESS COMBINATIONS

On March 31, 1997, the Company 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, including transaction costs, was valued at approximately $94 million. This transaction has been accounted for using the purchase method. 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, and as such, was charged to operations in the first quarter of fiscal year 1998. The remaining purchase price was allocated primarily to assets acquired, developed technology, and other intangibles. Specifically, costs of $14,300,000 and $6,700,000 were allocated to goodwill and other intangibles and are being amortized over five and four years, respectively. The operating results of Softdesk, which have not been material in relation to those of the Company, have been included in the accompanying consolidated financial statements since the date of acquisition. In the first quarter of fiscal year 1998, the Company also acquired certain assets of and licensed technology from 3D/Eye for $5.8 million. Of the total cost, $3.0 million represented the value of in-process research and development that had not yet reached technological feasibility and had no alternative future use and was charged to operations.

During fiscal year 1997 the Company acquired certain businesses for an aggregate of $9.9 million. Included in these acquisitions were the purchases of assets from Creative Imaging Technologies, Inc. ("CIT"), CadZooks, Inc., Argus Technologies, Inc. ("Argus"), as well as the outstanding stock of Teleos Research ("Teleos"). Approximately $3.2 million of the Teleos purchase price and $1.5 million of the Argus purchase price represented the value of in-process research and development that had not yet reached technological feasibility and had no alternative future use. These amounts were charged to operations during fiscal year 1997 and classified as nonrecurring charges in the accompanying statement of income. In fiscal year 1996, the Company acquired certain assets of Automated Methods (Pty) Ltd. and made final payments to the former stockholders of Ithaca Software, which was acquired by the Company in August 1993, based on revenues as specified in the acquisition agreement. Cash payments in fiscal year 1996 associated with these transactions totaled approximately $7.2 million. All of these acquisitions were accounted for using the purchase method of accounting with the purchase price being principally allocated to purchased technologies and capitalized software, intangible assets, and for the Teleos and Argus acquisitions, in-process research and development. The Company is amortizing these intangible assets on a straight-line basis over the remaining useful lives of the assets. The operating results of the acquired businesses, which have not been material in relation to those of the Company, have been included in the accompanying consolidated financial statements from their respective dates of acquisition. Additional consideration may also be payable to the former stockholders of CIT, Argus, Automated Methods, and Teleos based on product milestones and operating results, which are expected to be allocated to intangible assets and amortized on a straight-line basis over the remaining useful lives of the assets.

USE OF ESTIMATES

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

FOREIGN CURRENCY TRANSLATION

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

CASH AND CASH EQUIVALENTS

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

MARKETABLE SECURITIES

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

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

CONCENTRATION OF CREDIT RISK

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

INVENTORIES

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

COMPUTER EQUIPMENT, FURNITURE, AND LEASEHOLD IMPROVEMENTS

Computer equipment, furniture, and leasehold improvements are stated at cost. Computer equipment and furniture are depreciated using the straight-line method over the estimated useful lives of the assets, which range from two to five years. Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful life or the lease term. Depreciation expense was $22,876,000, $21,252,000, and $13,482,000 in fiscal years 1998, 1997, and 1996, respectively.

PURCHASED TECHNOLOGIES AND CAPITALIZED SOFTWARE

Costs incurred in the initial design phase of software development are expensed as incurred. Once the point of technological feasibility is reached, production costs (programming and testing) are capitalized. Certain acquired software-technology rights are also capitalized. Capitalized software costs are amortized ratably as revenues are recognized, but not less than on a straight-line basis over two- to seven-year periods. Amortization expense was $12,668,000, $9,563,000, and $11,765,000 in fiscal years 1998, 1997, and 1996, respectively. The actual lives of the Company's purchased technologies or capitalized software may differ from the Company's estimates, and such differences could cause carrying amounts of these assets to be reduced materially.

OTHER ASSETS AND GOODWILL

Amortization of purchased intangibles and goodwill is provided on a straight-line basis over the respective useful lives of the assets, which range from three to ten years. Accumulated amortization was $22,556,000 and $14,293,000 in fiscal years 1998 and 1997, respectively. The Company evaluates the realizability and the related periods of amortization of these assets on a regular basis. Amortization expense was $8,310,000 and $4,018,000 in fiscal years 1998 and 1997, respectively. (The Company did not incur amortization expense in fiscal year 1996.)

EMPLOYEE STOCK COMPENSATION

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

REVENUE RECOGNITION

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

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

ADVERTISING

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

ROYALTIES

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

NET INCOME PER SHARE

The Company adopted Financial Accounting Standards Board Statement No. 128, "Earnings Per Share" ("SFAS 128") in the fourth quarter of fiscal year 1998. SFAS 128 requires companies to present both basic net income per share and diluted net income per share. Basic net income per share excludes dilutive common stock equivalents and is calculated as net income divided by the weighted average number of common shares outstanding. Diluted net income per share is computed using the weighted average number of common shares outstanding and dilutive common stock equivalents outstanding during the period. A reconciliation of the numerators and denominators used in the basic and diluted net income per share amounts follows:

	Fiscal Year Ending January 31,		
(In thousands)	1998	1997	1996
Numerator:			
Numerator for basic and diluted net income per share—net income	$ 15,364	$ 41,571	$ 87,788
Denominator:			
Denominator for basic net income per share—weighted average shares	46,760	45,540	47,090
Effect of dilutive common stock options	3,100	1,650	2,710
Denominator for diluted net income per share	49,860	47,190	49,800

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

RECENTLY ISSUED ACCOUNTING STANDARDS

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 Company is currently evaluating the impact of SFAS 130 and SFAS 131 on its financial disclosures.

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

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

NOTE 2. FINANCIAL INSTRUMENTS

FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

FOREIGN CURRENCY CONTRACTS

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

MARKETABLE SECURITIES

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

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

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

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

NOTE 3. INCOME TAXES

The provision for income taxes consists of the following:

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

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

(In thousands)	Fiscal year ended January 31, 1998	1997	1996
Income tax provision at statutory rate	$19,250	$23,279	$48,398
Foreign income taxed at rates different from the US statutory rate	(1,005)	(1,644)	(7,863)
State income taxes, net of federal benefit	2,727	2,371	8,616
Tax-exempt interest	(2,031)	(1,348)	(1,668)
Acquired in-process research and development	19,285	1,130	—
Other	1,409	1,153	3,009
	$39,635	$24,941	$50,492

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

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

The tax benefit associated with dispositions from employee stock plans reduced taxes currently payable for fiscal years 1998, 1997, and 1996 by $16,230,000, $2,578,000, and $10,712,000, respectively. No provision has been made for federal income taxes on unremitted earnings of certain of the Company's foreign subsidiaries (cumulative $159 million at

January 31, 1998) since the Company plans to reinvest all such earnings for the foreseeable future. At January 31, 1998, the unrecognized deferred tax liability for these earnings was approximately $44.0 million. Foreign pretax income was $55.1 million, $45.0 million, and $64.4 million in fiscal years 1998, 1997, and 1996, respectively.

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

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

NOTE 4. LITIGATION ACCRUAL

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

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

NOTE 5. COMMITMENTS AND CONTINGENCIES

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

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

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

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

NOTE 6. EMPLOYEE BENEFIT PLANS

STOCK OPTION PLANS

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

Stock option activity is as follows:

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

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

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

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

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

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

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

EMPLOYEE STOCK PURCHASE PLAN

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

PRO FORMA INFORMATION

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

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

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

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected volatility of the stock price. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of its options. The weighted average estimated fair value of employee stock options granted during fiscal years 1998, 1997, and 1996 was $13.50, $8.34, and $12.76 per share, respectively. The weighted average estimated fair value of shares granted under the Employee Stock Purchase Plan during fiscal years 1998, 1997, and 1996 was $7.17, $8.01, and $7.85, respectively.

For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma net income (loss) for fiscal years 1998, 1997, and 1996 was $(21,939,000), $15,343,000, and $77,952,000, respectively. Pro forma basic net income (loss) per share was $(0.47), $0.34, and $1.66 in fiscal years 1998, 1997, and 1996, respectively. In fiscal years 1998, 1997, and 1996, pro forma diluted net income (loss) per share was $(0.47), $0.30, and $1.52, respectively.

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

PRETAX SAVINGS PLAN

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

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

NOTE 7. STOCKHOLDERS' EQUITY

PREFERRED STOCK

The Company's Certificate of Incorporation authorizes 2 million shares of preferred stock, none of which is issued or outstanding. The Board of Directors has the authority to issue the preferred stock in one or more series and to fix rights, preferences, privileges and restrictions, including dividends, and the number of shares constituting any series or the designation of such series, without any further vote or action by the stockholders.

COMMON STOCK REPURCHASE PROGRAM

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

In August 1996, the Company announced another stock repurchase program under which the Company may purchase up to 5 million shares of common stock in open market transactions as market and business conditions warrant—the "Supplemental Plan." In December 1997, the Board of Directors authorized the purchase of an additional 5 million shares under the Supplemental Plan. The Company may also utilize equity options as part of the Supplemental Plan. During fiscal years 1998 and 1997, the Company repurchased 1,000,000 and 557,500 shares in the open market at average per share repurchase prices of $34.37 and $24.09, respectively, and entered into the equity options described below.

In September 1996, the Company sold put warrants to an investment bank that entitle the holder of the warrants to sell 3 million shares of common stock to the Company at $21.50 per share. Additionally, the Company purchased call options from the same independent third party that entitle 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 2,000,000 shares of its common stock during the third quarter for $51 million. The put warrants expired unexercised in September 1997 and were reclassified from put warrants to stockholders' equity during the third quarter of fiscal year 1998.

In December 1997, the Company sold put warrants to an independent third party that entitle the holder of the warrants to sell 1.5 million shares of common stock to the Company at $38.12 per share. Additionally, the Company purchased call options from the same independent third party that entitle the Company to buy 1 million shares at $39.88 per share. The premiums received with respect to the equity options totaled $4.5 million and equaled the premiums paid. Consequently, there was no exchange of cash. The outstanding put warrants at January 31, 1998, permitted a net share settlement at the Company's option. As a result, the transaction did not result in a put warrant liability on the consolidated balance sheet.

NOTE 8. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial information for fiscal years 1998, 1997, and 1996 is as follows:

(In thousands, except per share data)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Fiscal Year
Fiscal year 1998					
Net revenues	$118,984	$154,096	$162,195	$181,851	$617,126
Gross margin	102,943	135,371	144,683	163,271	546,268
Income (loss) from operations	(53,796)	25,469	30,126	43,556	45,355
Net income (loss)	(52,745)	17,835	20,956	29,318	15,364
Basic net income (loss) per share	(1.15)	0.37	0.44	0.64	0.33
Diluted net income (loss) per share	(1.15)	0.34	0.41	0.60	0.31
Fiscal year 1997					
Net revenues	$136,281	$128,745	$116,647	$115,020	$496,693
Gross margin	118,989	112,123	101,427	99,937	432,476
Income from operations	28,125	17,123	7,502	7,067	59,817
Net income	19,060	10,645	5,873	5,993	41,571
Basic net income per share	0.41	0.23	0.13	0.13	0.91
Diluted net income per share	0.39	0.22	0.13	0.13	0.88
Fiscal year 1996					
Net revenues	$138,658	$140,686	$128,537	$126,286	$534,167
Gross margin	121,373	123,324	112,419	110,239	467,355
Income from operations	38,408	38,897	28,046	23,676	129,027
Net income	25,977	26,299	19,207	16,305	87,788
Basic net income per share	0.55	0.56	0.41	0.35	1.86
Diluted net income per share	0.51	0.52	0.38	0.34	1.76

Results for the first quarter of fiscal year 1998 included nonrecurring charges of approximately $55.1 million and $3.0 million, respectively, representing the value of in-process research and development that had not yet reached technological feasibility and had no alternative future use acquired in the Softdesk and 3D/Eye transactions. These charges resulted in a reduction in diluted net income per share of $1.25 in the first quarter of fiscal year 1998. Results for the second and third fiscal quarters of fiscal year 1997 included nonrecurring charges of $3.2 million and $1.5 million, respectively, related to in-process research and development acquired in the Teleos and Argus acquisitions that had not yet reached technological feasibility and had no alternative future use. These charges resulted in an $0.08 and $0.02 reduction in diluted net income per share in the second and third quarters of fiscal year 1997, respectively.

NOTE 9. INFORMATION BY GEOGRAPHIC AREA

Information regarding the Company's operations by geographic area at January 31, 1998, 1997, and 1996, and for the fiscal years then ended is as follows:

	Fiscal year ended January 31,		
(In thousands)	1998	1997	1996
Revenues:			
The Americas			
Customers in the United States	$266,921	$176,286	$195,272
Customers in Asia Pacific	46,542	40,284	42,262
Customers in Canada	18,695	10,671	14,619
Other exports	18,014	13,420	11,103
Intercompany revenues	47,445	65,758	67,728
	397,617	306,419	330,984
Europe	208,340	189,082	211,480
Asia Pacific	73,846	79,887	72,148
Consolidating eliminations	(47,445)	(65,758)	(67,728)
	$632,358	$509,630	$546,884
Income (loss) from operations:			
The Americas	$(11,816)	$ 22,734	$ 63,843
Europe	51,220	32,909	53,696
Asia Pacific	5,951	4,174	11,488
	$ 45,355	$ 59,817	$129,027
Identifiable assets:			
The Americas	$333,558	$329,171	$306,795
Europe	287,470	302,183	250,268
Asia Pacific	72,472	72,543	73,426
Consolidating eliminations	(159,817)	(211,664)	(112,560)
	$533,683	$492,233	$517,929

Intercompany revenues consist of royalty revenue payable by the Company's subsidiaries under software license agreements with the US parent company. At January 31, 1998, 1997, and 1996, total foreign net equity was $247.2 million, $161.2 million, and $133.2 million, respectively.

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

THE BOARD OF DIRECTORS AND STOCKHOLDERS
AUTODESK, INC.

We have audited the accompanying consolidated balance sheets of Autodesk, Inc., as of January 31, 1998 and 1997, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended January 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Autodesk, Inc., at January 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 31, 1998, in conformity with generally accepted accounting principles.

Ernst + Young LLP

San Jose, California
February 24, 1998

DIRECTORS, EXECUTIVE OFFICERS, AND OFFICERS

DIRECTORS

Carol Bartz
Chairman of the Board and Chief Executive Officer

Mark A. Bertelsen
Senior Partner, Wilson, Sonsini, Goodrich & Rosati, Attorneys-at-Law

Crawford W. Beveridge
Chief Executive Officer, Scottish Enterprise, an economic development company

J. Hallam Dawson
Chairman, IDI Associates, a private investment bank

Paul S. Otellini
Executive Vice President, General Manager, Intel Architecture Business Group

Mary Alice Taylor
Corporate Executive Vice President of Global Operations and Technology, CitiCorp

Morton L. Topfer
Vice Chairman, Dell Computer Corporation

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Chairman of the Board and Chief Executive Officer

Eric Herr
President and Chief Operating Officer

Dr. Joseph Astroth
Vice President, GIS Market Group

Carl Bass
Vice President, Engineering and Chief Technical Officer

Steve Cakebread
Vice President Chief Financial Officer

James D'Arezzo
Vice President, Corporate Marketing

Dominic Gallello
Vice President, Mechanical CAD Market Group

Stephen McMahon
Vice President, Human Resources and Facilities

Tom Norring
Vice President, Asia Pacific

Michelle Pharr
Vice President, the Americas

Marcia Sterling
Vice President, Business Development, and General Counsel

Godfrey Sullivan
Vice President, Personal Solutions Group

Michael Sutton
Vice President, Europe/Middle East/Africa

OFFICERS

William Kredel
Vice President and Chief Information Officer

David Oppenheimer
Vice President, Finance

John Sanders
Vice President, Worldwide Product Support

Michael Tabatabai
Vice President, Worldwide Operations

Christine Tsingos
Vice President and Treasurer

Eric Wagner
Vice President, Software Development

CORPORATE INFORMATION

MARKET INFORMATION AND DIVIDEND POLICY

Market Prices
The Company's common stock is traded on the Nasdaq National Market under the symbol ADSK. The following table lists the high and low sales prices for each quarter in the last three fiscal years:

	HIGH	LOW
FISCAL YEAR 1998		
First quarter	$ 36⅜	$ 28¼
Second quarter	$ 42⅞	$ 34 1/16
Third quarter	$ 51⅛	$ 30½
Fourth quarter	$ 42⅛	$ 32¼
FISCAL YEAR 1997		
First quarter	$ 44¼	$ 29¾
Second quarter	$ 42¾	$ 20½
Third quarter	$ 27½	$ 18½
Fourth quarter	$ 35⅜	$ 21
FISCAL YEAR 1996		
First quarter	$ 44	$ 33
Second quarter	$ 50¼	$ 34
Third quarter	$ 53	$ 33
Fourth quarter	$ 39½	$ 27¾

Dividends
The Company paid quarterly dividends of $0.06 per share in fiscal years 1998, 1997, and 1996. The Company currently intends to continue paying regular cash dividends on a quarterly basis.

Stockholders
As of April 21, 1998, the approximate number of common stockholders of record was 1,240.

ANNUAL MEETING

The Company's Annual Meeting of Stockholders will be held at 2:00 PM on June 25, 1998, at Embassy Suites Hotel, 101 McInnis Parkway, San Rafael, California.

Form 10-K
A copy of the Company's Annual Report on Form 10-K for fiscal year 1998 filed with the Securities and Exchange Commission may be obtained without charge by sending a written request to Investor Relations, Autodesk, Inc., 111 McInnis Parkway, San Rafael, CA 94903. Information about Autodesk and its business, including the Company's periodic filings with the Securities and Exchange Commission, may be obtained from Autodesk's World Wide Web site at **www.autodesk.com**.

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FOR MORE INFORMATION

For more information, please write Investor Relations, Autodesk, Inc., 111 McInnis Parkway, San Rafael, CA 94903, phone us at 415-507-5000, or visit our World Wide Web sites at **www.autodesk.com** and **www.ktx.com**.

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Autodesk®

DESIGN YOUR WORLD™

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