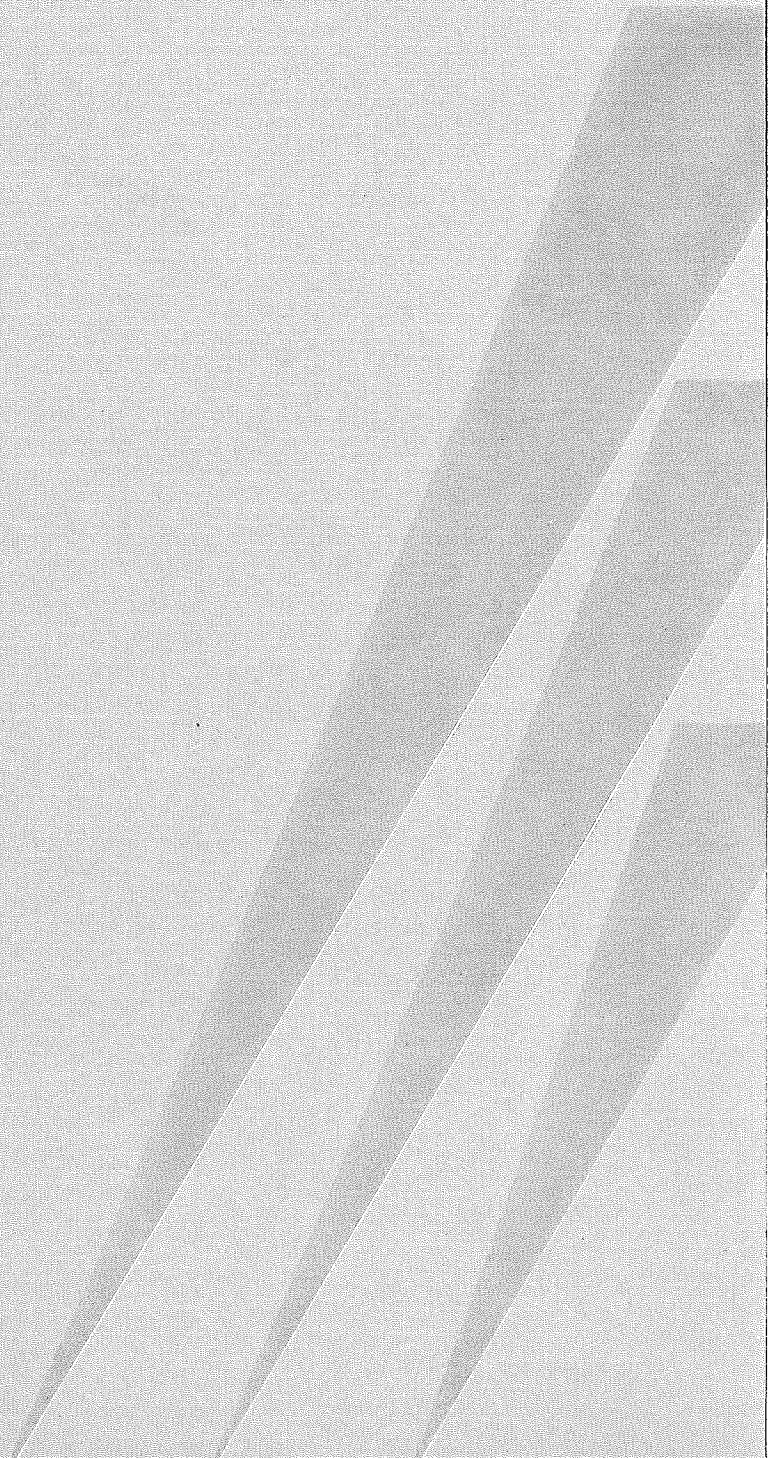




Autodesk, Inc.
1988 Annual Report



KEY EVENTS OF FISCAL 1988

March 1987

- Three-for-one stock split
- Autodesk acquires Cadetron

April 1987

- AutoCAD released for IBM Personal System/2
- AutoCAD 2.6 released

May 1987

- Autodesk chosen as *Business Week's* #1 "hot growth" company for the second year

Autodesk, Inc. designs, develops, markets, and supports a family of computer-aided design (CAD) software products for personal computers and 32-bit workstations. The Company's market includes engineers, architects, designers, manufacturers, facility planners, surveyors, and educators.

Autodesk Products:

AutoCAD®

AutoCAD AEC®
Architectural

AutoCAD AEC®
Mechanical

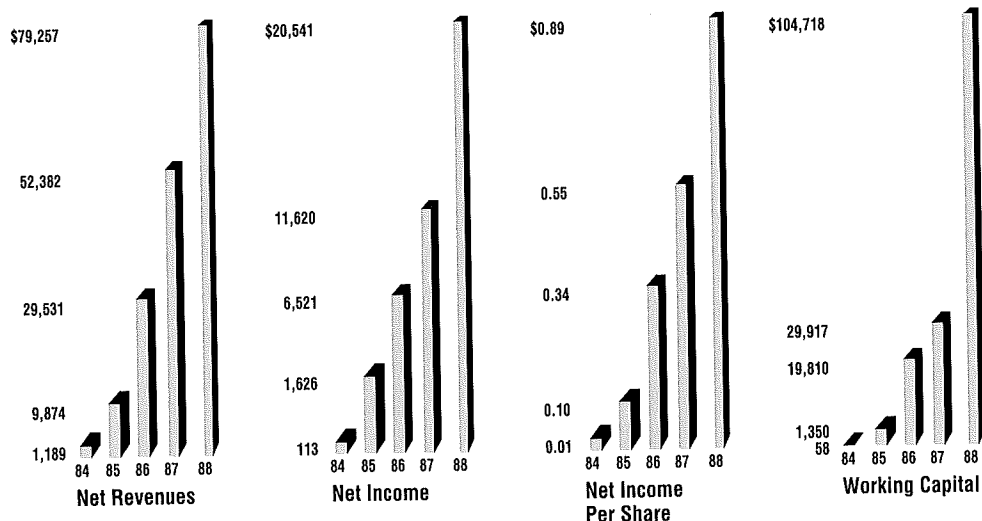
AutoShade™

AutoSketch®

To Our Shareholders

"Autodesk is the runaway market leader."

Daratech Inc.



(000's except for per share data)

Selected Financial Data

Fiscal Year	1988	1987	1986	1985	1984
	(000's, except for per share data)				
Net revenues	\$79,257	\$52,382	\$29,531	\$9,874	\$1,189
Gross profit	\$68,705	\$44,518	\$24,949	\$8,360	\$961
Operating expenses	\$37,496	\$22,880	\$12,556	\$5,542	\$841
Provision for income taxes	\$14,506	\$11,305	\$6,490	\$1,255	\$12
Net income	\$20,541	\$11,620	\$6,521	\$1,626	\$113
Common and common equivalent shares	23,180	21,030	18,990	16,500	15,900
Per share data					
Net income	\$0.89	\$0.55	\$0.34	\$0.10	\$0.01
Book value	\$4.82	\$1.65	\$1.05	\$0.16	\$0.04
Total assets	\$125,451	\$40,347	\$24,683	\$4,899	\$543
Debt	\$149	\$95	\$162	—	—
Shareholders' equity	\$114,765	\$33,982	\$21,171	\$2,004	\$199

Fiscal 1988 was another year of vigorous growth and expansion for Autodesk. Revenues were up 51% from the previous year, increasing from \$52,382,000 to \$79,257,000. Earnings per share rose 62%, from \$.55 to \$.89.

Financially, we've never been stronger. Our cash and marketable securities exceed \$96 million, with practically no long-term debt.

In March, we effected a three-for-one split of the common stock. During the same month we acquired Cadetron, an Atlanta, Georgia-based company that has developed a mainframe-level solid modeling program for desktop computers. The product, originally known as The Engineer Works, is currently scheduled to be released as AutoSolid™ in the second quarter of fiscal 1989. Solid modeling is the state-of-the-art technique for mechanical part design. Until now, this type of performance has been available only at costs of \$20,000 to \$150,000 per workstation. AutoSolid will not only cost a great deal less, but will also interface with AutoCAD.

In June, a second public offering of 2,500,000 shares of common stock raised \$57,316,000 which is being used by the Company to finance further growth. In the same month we also established a subsidiary in Australia to develop, market, and distribute Autodesk products. Our international presence continues to gain

momentum. Japan, a particularly tough market to penetrate, has responded favorably to our products with \$4,525,000 in FY 1988 sales, a 72% increase over last year's. Overall, international sales contributed 43% of our total sales for the year.

In fiscal 1988, we continued to broaden and deepen our product line. During the year we released two new versions of AutoCAD. In early April came AutoCAD 2.6, featuring such enhancements as three-dimensional design and associative dimensioning. With the next release in September, we changed the numbering system to emphasize the product's major feature enhancements. AutoCAD Release 9, the ninth major release in five years, introduced a greatly improved user interface, with programmable pull-down menus, icon menus, and dialogue boxes which make the program easier to learn, use, and customize. Introduction of a uniform file format makes it possible for users of different types of computers to network and exchange files directly. As always, the new AutoCAD release accepts drawing files created with older versions of AutoCAD. The program is now used by over 135,000 customers.

In September we began to ship a major addition to our product line: AutoShade, a rendering program that converts 3-dimensional AutoCAD drawings into realistic shaded images. Barely two months after its release, AutoShade won *PC Magazine's* 1987 Award for

Technical Excellence in graphics. Another product introduced in 1987 was AutoCAD AEC Mechanical, a productivity tool for the design of plumbing, heating-ventilation-air conditioning (HVAC), and fire-protection systems, released in August. In December, we presented AutoFlix™, our new animation software. The program, to be released in the first quarter of fiscal 1989, allows AutoShade users to "walk through" their 3-D drawings or animate individual drawing objects.

In addition to our own products, hundreds of third-party software packages are available worldwide whose development has been facilitated by AutoCAD's open architecture. Autodesk will continue to encourage such development through its AutoCAD Applications Developer Program.

Fiscal 1988 was also a year of recognition for our Company. For the second year in a row, *Business Week* named Autodesk the number one "hot growth" company in the nation. No other company has ever achieved this double distinction. A few of the other awards we received are:

- World Class CAD
PC World
- Bay Area 100 - #1 Fastest Growth Company
San Francisco Chronicle
- Company of the Year
California Business

▪ #1 Design & Drafting Favorite Product
Industrial Education

▪ TARGET Award—Best Scientific/Engineering Software for DEC
Digital Review

In January 1988, we celebrated the sixth anniversary of the organizational meeting of Autodesk. In the same month, we appointed two distinguished new members to our board of directors.

J. Hallam Dawson, a former president and board member of Crocker Bank, has more than 25 years' experience in banking and is now chairman of a San Francisco company that sponsors and manages a series of debt/equity swap funds. James D. Stocker, a former president of Scott Paper International, has over 30 years' experience in industry, financial services, and consulting and is currently the head of a firm which assists businesses seeking to expand internationally.

We closed the year with 414 employees, 154 user groups, and over 200 Authorized Training Centers® worldwide.

The coming year promises to be one of even more exciting prospects. Autodesk is committed to the goal of putting its software on each and every important workstation in the world. We are enthusiastic about our future and will continue in our efforts to reward the trust you have placed in our growth potential.



Alvar J. Green
President and
Chief Executive Officer

KEY EVENTS OF FISCAL 1988

June 1987

- Second public offering raises \$57,316,000
- Australian subsidiary established
- Second annual AutoCAD Expo held with 88 third-party developers and manufacturers
- Federal Systems Group formed to work with government agencies
- AutoCAD released for DEC VAX Station
- 100,000th package of AutoCAD shipped

**Consolidating Our Leadership
Position: Expansions in
Product Line, Markets,
Distribution, and Training**

"Autodesk is an amazing story of entrepreneurial spirit...During this period of incredible growth, Autodesk continued to improve. They listened to customers. They listened to PC product suppliers. They supported all levels of third-party developers, including software, training, and educational support systems."

The Anderson Report

"Autodesk's distribution backbone is the envy of the CAD industry."

Business Week

Fiscal 1988 marked Autodesk's expansion in several key areas. Growth on the order we've achieved in the past five years cannot be sustained without a sound base in product diversification; superior channels of distribution; expansion in both domestic and foreign markets; and close ties to manufacturing to ensure technology transfer and an adequate supply of trained personnel for industry.

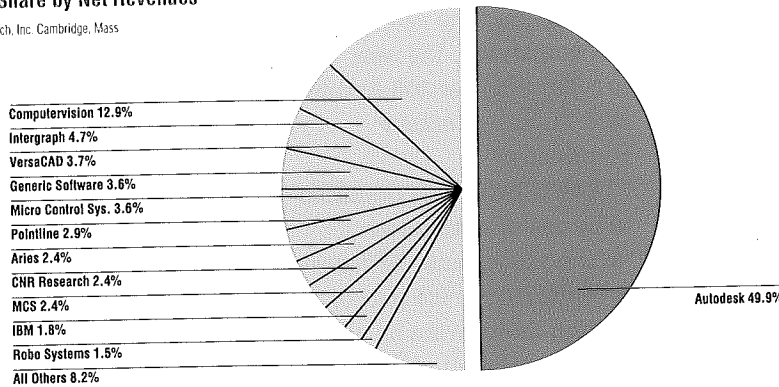
We have made significant strides in all these areas.

**An Ever Growing
Product Line**

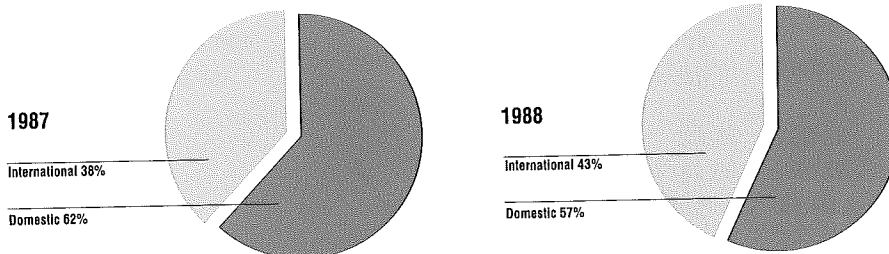
Once perceived as a one-product company, Autodesk now markets "The Autodesk Family of Products" for desktop computers and 32-bit workstations, addressing the needs of a broadening customer base. While AutoCAD continues to dominate the computer-aided design market with well over 135,000 users, more than 48,000 CAD customers have found their answer in AutoSketch, our low-price, entry-level program which is upwardly compatible with AutoCAD. The new AutoShade turns AutoCAD line drawings into realistic 3-dimensional, color-shaded images. AutoCAD AEC Architectural and AutoCAD AEC Mechanical are productivity tools customized for

**1987 Personal Computer CAD/CAM CAE
For Mechanical and Architectural Applications
Market Share by Net Revenues**

Source: Datatech, Inc. Cambridge, Mass



**Growing International Presence
Percentage of Net Revenues**



the specific requirements of architects, featuring macros and symbol libraries that help automate many design steps. AutoSolid, currently scheduled to be released in the second quarter of Fiscal 1989, will bring affordable, sophisticated solid-modeling capabilities to the desktop. AutoFlix, a software utility for animating two- and three-dimensional images produced by AutoCAD, AutoShade, and AutoSketch, will be made available during the first quarter of Fiscal 1989.

Expansion: The U.S. and Abroad

In the United States we've had significant sales to Fortune 1000 companies. The drive to increase our installed base within these companies will continue in the coming year. On the international front, Autodesk is establishing a strong presence as well. We now have five foreign subsidiaries, in Australia, England, Japan, Sweden, and Switzerland. A global network of more than 2,300 authorized dealers provides for the needs of customers on every continent.

Efficient Channels of Distribution

Autodesk has developed the strongest marketing and sales organization in the CAD industry, with 1,300 Authorized Dealers in the U.S., each trained at Autodesk headquarters, and with another 971 trained dealers in 48 countries throughout the world.

Digital Equipment Corporation sells AutoCAD directly to its major accounts, and Bridgeport Machines, Inc. bundles AutoCAD with its machine tools. Both contracts support Autodesk's expansion into the Fortune 1000 companies, led by our major accounts team, which sells directly to large corporations in conjunction with our National Accounts Dealers.

Our products are already used extensively in many of the Fortune 1000 companies, through purchases by engineering departments. Our goal for the coming year is to consolidate that base by winning national and international corporate agreements leading to standardization on Autodesk products.

Educational Ties to Manufacturing

The need for effective technology transfer from knowledge-production sources to knowledge-utilization sites keeps growing. Eighty-five to ninety percent of U.S. manufacturing is to be found in

small companies, whose numbers now exceed 200,000. These companies need access to new technology, as well as a properly trained workforce to implement the technology.

In 1987 Autodesk's education department helped create three models for technology transfer:

- *The Alliance for Manufacturing Productivity (AMP)* is a national effort bringing together 20 two-year technical colleges, the Society of Manufacturing Engineers, and tool manufacturers for the purpose of using manufacturing productivity to help create new jobs and reduce the U.S. trade deficit.

- *The Southern Growth Policy Board* is the regional effort of twelve governors of southern states in cooperation with the Appalachian Regional Commission and the Tennessee Valley Authority to set up a model similar to the national AMP, concentrating on one school in each of the participating states.

- *The Georgia/Autodesk Program* is an experiment in influencing the technical education of an entire state. Details of this project are provided on page 8 of this report.

KEY EVENTS OF FISCAL 1988

July 1987

- Autodesk invests in External Tanks Corporation

August 1987

- AutoCAD AEC Mechanical released

September 1987

- AutoCAD Release 9 released
- AutoShade released
- AutoCAD voted #1 Design & Drafting Favorite Product by instructors and teachers in *Industrial Education*

Accelerating Productivity, Stimulating Innovation: Autodesk Products in Design and Manufacturing

"AutoCAD has become the yardstick against which other programs are measured."

Architectural & Engineering Systems

Mechanical Engineering, Fabrication, and Documentation at Compaq

At Compaq Computer Corporation, AutoCAD plays an important part in product design, manufacturing operations, and the production of technical documentation.

Compaq mechanical engineers use AutoCAD to create product designs and establish engineering specifications which are then released to outside contractors in the form of both drawings and AutoCAD databases.

In the assembly plant, AutoCAD printed circuit-board fabrication and assembly databases are manipulated with layering techniques to generate methods drawings for component installation.

In the marketing department, AutoCAD has streamlined the creation of technical illustrations for all technical documents, such as service manuals. A typical document might contain hundreds of drawings. Each modification in one of the drawings necessitates adjustments in 60%–70% of all the other drawings as well. The department estimates that the time saved with AutoCAD is on the order of 90% of the time needed to modify drawings by hand. Future use of third-party macros which allow automatic updating of whole series of drawings will further improve productivity.

Design and Manufacturing at Eagle Engine

The internal combustion engine has undergone some startling changes at Eagle Engine Manufacturing of Westlake Village, California. The five-person firm was founded for the purpose of designing and building the ultimate engine—one that would combine the high-RPM, overhead cam, four-valve technology of European engines with the large displacement and high performance of American racing engines.

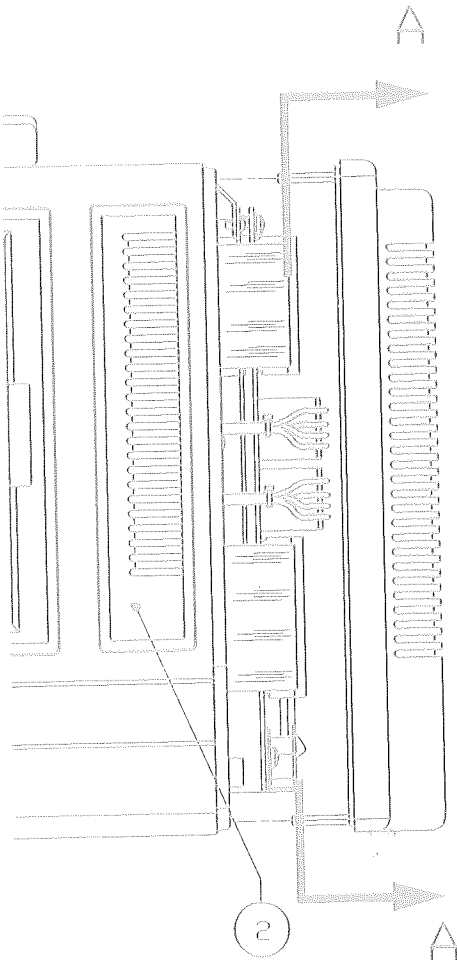
Eagle's founder, a top fuel drag-racing veteran and engine designer, had never used a CAD system but knew he needed one to get the job done. Research quickly revealed that AutoCAD was the program of choice, owing to its popularity and the vast array of third-party applications software which made valuable technological resources immediately available.

A week at an Authorized AutoCAD Training Center produced the hands-on experience required to apply AutoCAD to the task of engine design.

AutoCAD, complemented by third-party software, was used to create a parametric design which allowed modifications—from changing specific part dimensions to rescaling entire assemblies—to be carried out quickly and easily. Another third-party application program was used to generate the numerical control code for manufacturing the engine.

With the help of AutoCAD's layering capability, assemblies were mounted and tolerances fine-tuned on screen. Working drawings were then produced which served as production guides for the machine-shop contractors making the finished parts. No models were ever built.

Eighteen months from inception, the Eagle engine was a 3,000-horsepower, 650-pound reality. It has already found use in a variety of applications, including top-fuel drag racing, off-shore marine engines, and power plants for light trucks. AutoCAD and the parametric design technique provide the flexibility needed to modify the engine to clients' exact specifications as they were watching.



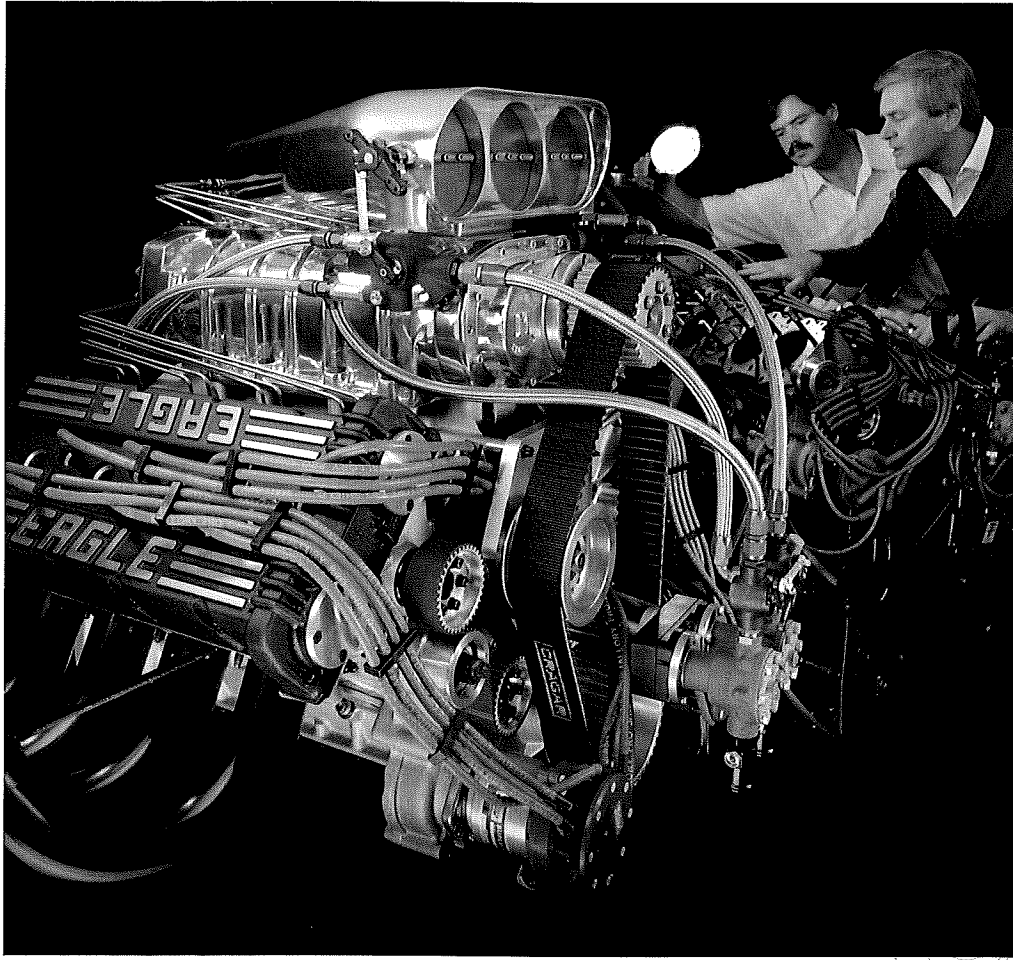
KEY EVENTS OF FISCAL 1988

October 1987

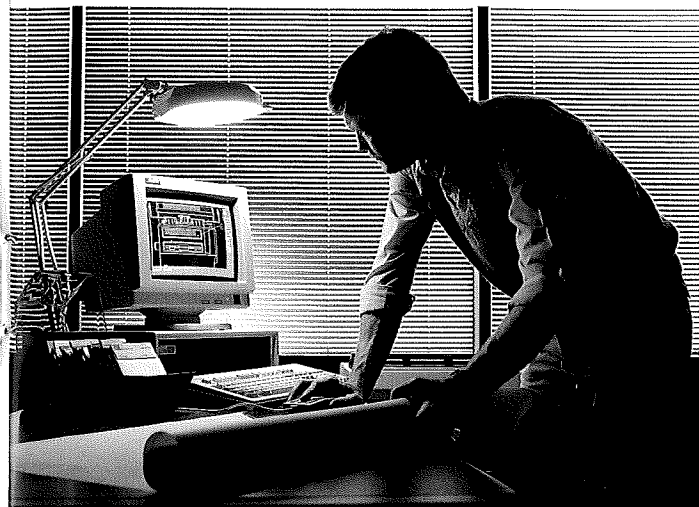
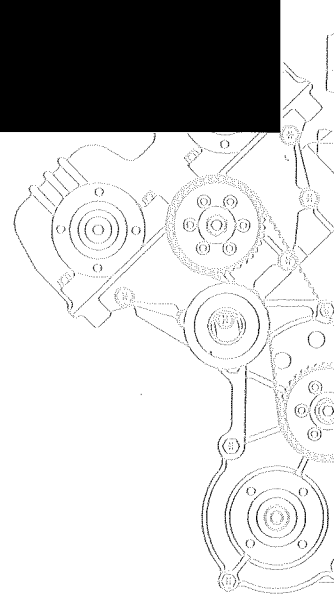
- AutoSketch 1.02 released
- AutoCAD voted "World Class" graphics & CAD software for the second year by *PC World* readers

November 1987

- AutoShade wins *PC Magazine's* 1987 Technical Excellence Award
- Autodesk signs agreement with Bridgeport Machines



The engineering team and its product, Eagle Engine Manufacturing



Assembly, enclosure chassis AutoCAD drawing, Compaq Computer Corporation

Solving Design and Implementation Problems: Autodesk Products in Architecture, Engineering, Construction, and Education

Architecture and Engineering in the U.S. Army

The Army Health Facility Planning Agency in Falls Church, Virginia is responsible for designing and building hospitals and clinics in the U.S. and abroad. Currently, twenty-five projects are under construction and another 51 are being designed.

The Agency works with the Army Corps of Engineers' Medical Facilities Design Office. Both use AutoCAD interactively to map out functional and technical requirements for each facility.

AutoCAD helps automate design through a Medical Design Guide, a database of 100 standard rooms. The Guide includes layouts, functional relationships, equipment lists, and mechanical specifications. The architects draw on a custom-designed symbol library for any element needed.

After buildings are sized for workload and staffing, a file containing data for each room is imported into AutoCAD, which automatically draws a skeleton of block diagrams to scale with each room's name, size, and ID code. The appropriate Design Guide plates are then overlaid onto this skeleton.

Once the project has gone to contract, the Agency uses AutoCAD to monitor construction. Having achieved substantial gains in productivity, the Agency's next goal is to create a library of complete healthcare facilities.

Technical Training and Industrial Development in the State of Georgia

The state of Georgia has a recognized ability to attract and develop industry. Georgia's General Assembly enacted the Quality Basic Education Act to stimulate business development and to help postsecondary technical institutes to become "agents for economic development."

The Georgia/Autodesk Program, introduced in 1987, creates a comprehensive CAD education, training, and industrial development network for the state.

Autodesk and the schools first identified industries targeted for technology transfer. The schools then developed a plan which outlines how the technology is to be delivered to industry. A local Autodesk Educational Representative visited each school to assess hardware requirements, make appropriate recommendations, and train the school instructors. Schools were then certified and provided with 3 packages of software each.

Monitored by the Board of Technical and Adult Education, the schools have already begun to work with local industry, making demonstrations to companies and training their employees in CAD applications.

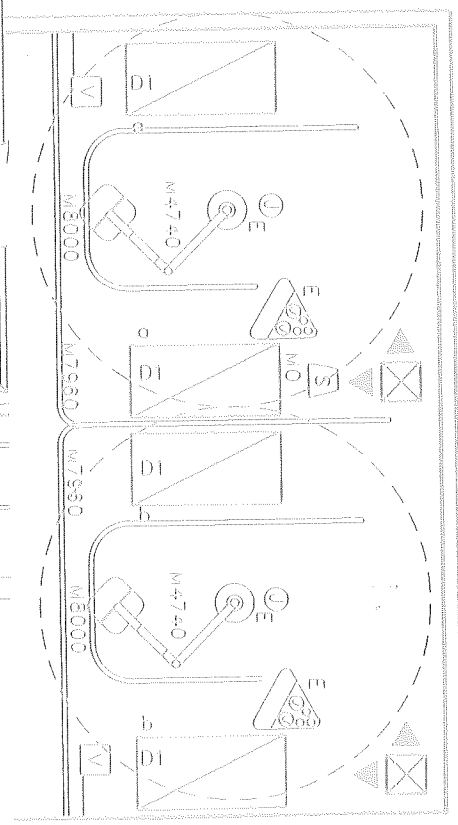
Olympic Mountain Surveying in Canada

When Mt. Allan in Kananaskis Country, Canada was selected as the site for the 1988 Winter Olympics ski competitions, it was a heavily wooded virgin territory. A Calgary, Alberta firm was selected to survey the mountainside for the purpose of finding the best locations for ski runs and lifts.

Ground survey points were established for aerial photography, from which the mountain contours were mapped with the aid of a stereo plotter.

A third-party software program was used to calculate points on the mountainside which yielded 3-dimensional coordinates for placement of the ski lift lines. Once the coordinates were established, a transfer file imported the data into AutoCAD to create the survey plans.

Field crews were then dispatched to the slopes with a computer and AutoCAD to define the lift-line coordinates on the ground. They found that the upper point proposed for the Gold lift line was situated atop a rock outcropping. While the crew was still in the field, communications were established with the office staff 45 miles away and the necessary adjustments made to the plan in a matter of minutes.



KEY EVENTS OF FISCAL 1988

December 1987

- AutoCAD wins *Digital Review's* TARGET Award for the best engineering/scientific software product
- Autodesk chosen Company of the Year by *California Business*

January 1988

- Autodesk celebrates 6 years since inception
- Fiscal year sales reach \$79,257,000



Walter Reed Army Hospital, Washington, D.C.

Mount Allan, Alberta, site of the 1988 Olympic ski competitions



Results of Operations

Net Revenues

The Company's net revenues continued to increase in fiscal year 1988 primarily as a result of continued growth of the personal computer CAD software market and the acceptance of AutoCAD as a market standard by both domestic and foreign customers. The introduction of two major upgrades of AutoCAD in fiscal year 1988, as well as new product offerings, enabled Autodesk to maintain its market leadership.

Fiscal 1988 net revenues increased approximately 51% over fiscal 1987, which had shown an increase of approximately 77% over fiscal 1986. Sales of AutoCAD accounted for approximately 93% of net revenues in fiscal 1988, 96% in fiscal 1987, and 91% in fiscal 1986. The Company's Western European and Japanese operations continued to expand during fiscal 1988. In addition, Autodesk established a new subsidiary in Australia in July which purchased an Australian distributor. Net revenues from Autodesk's foreign subsidiaries grew faster than domestic net revenues in fiscal year 1988 as foreign net revenues increased 83% over fiscal 1987. Foreign net revenues, including net revenues from the United States to foreign customers, accounted for approximately 43%, 38%, and 30% of net revenues in fiscal 1988, 1987, and 1986, respectively. See Note 9 of Notes to Consolidated Financial Statements.

Domestically the Company sells its products primarily to dealers and distributors which accounted for approximately 42%, 58%, and 60% of net revenues in fiscal years 1988, 1987, and 1986, respectively. The balance of domestic sales is made principally to educational institutions, government agencies, and, through the Company's major accounts programs, to large corporations.

Cost of Revenues

Cost of revenues includes royalty payments, production of technical manuals and associated materials, blank disks, the cost of transferring the software programs onto these disks, and the amortization of capitalized software development costs. Cost of revenues, as a percentage of net revenues, decreased to approximately 13% for fiscal 1988, from approximately 15% for fiscal 1987 and fiscal 1986. This decrease is due in part to the benefits from certain economies of scale associated with higher sales volume and to reduced royalty payments resulting both from increased sales of AutoCAD extension packages which bear no royalty cost and the restructuring of the base package pricing during fiscal year 1987.

Marketing and Sales

Marketing and sales expenses have increased significantly in absolute dollars over the last three fiscal years, but have remained relatively constant at approximately 25% of net revenues. Major expenditures in this area for fiscal 1988 included advertising and other programs aimed at increasing revenues from corporate accounts, continued development of distribution channels, increased staffing, AutoCAD expositions held both in the United States and Europe, and various programs designed for the educational and government markets.

Research and Development

Research and development expenses consist primarily of salary costs for software developers and the cost of computer equipment used in software development. These expenses increased significantly in fiscal year 1988, rising to approximately 9% of net revenues as compared to approximately 6% for fiscal years 1987 and 1986. This increase is due primarily to the addition of technical staff which joined the Company through the acquisition of Cadetron, Inc. and the hiring of software development personnel. In fiscal 1987, the Company began capitalizing certain software development costs in accordance with FASB Statement of Accounting Standards No. 86. See Note 1 of Notes to Consolidated Financial Statements. Total research and development costs, including the capitalized costs, amounted to 11%, 7%, and 6% in fiscal 1988, 1987, and 1986, respectively. The Company intends to continue to recruit and hire experienced software developers while at the same time considering the acquisition of complementary software technology and products.

General and Administrative

General and administrative expenses include the finance, accounting, legal, purchasing, facilities, and administrative operations of the Company. These costs continued to grow at a rate equal to the growth of the Company's business, but have remained relatively constant at approximately 13% of net revenues for fiscal years 1988 and 1987, and 12% of net revenues in fiscal 1986. In addition to the normal operating costs associated with business growth during fiscal 1988, additional costs were incurred in the acquisition of Cadetron, Inc. and the formation of the Australian subsidiary.

Interest Income

Interest income increased approximately 238% over fiscal 1987, which had increased approximately 94% from fiscal 1986. This increase is primarily due to the interest earned from investing the additional capital raised in the public offering of common stock in June 1987.

Net Income

Net income increased approximately 77% from fiscal 1987 to fiscal 1988, and approximately 78% from fiscal 1986 to fiscal 1987. Net income per share was \$.89, \$.55, and \$.34 for the same periods, respectively. The growth of the Company's net income continues to be favorably affected by increased unit sales volume and by enhancements to the AutoCAD package which bear higher gross margins. The profitability of the Company's international operations continued to improve in fiscal year 1988, but still remained below that of its domestic operations. See Note 9 of Notes to Consolidated Financial Statements. Net income also improved in fiscal year 1988 by the reduction in the United States federal income tax rate, from 46% in fiscal 1987 to 39% in fiscal 1988. In December 1987, the Financial Accounting Standards Board issued statement No. 96 "Accounting for Income Taxes." The statement is effective for fiscal years beginning after December 15, 1988, although earlier application is encouraged. The Company believes that the statement will not have a material effect on operating results. The Company has not experienced any significant effects from inflation in recent years.

Quarterly Results

The Company's results of operations to date have not been measurably affected by seasonal trends. See Note 8 of Notes to Consolidated Financial Statements for unaudited quarterly information for fiscal 1987 and fiscal 1988. The Company believes that in the future, however, order deferrals in anticipation of new product releases or delays in the shipment of new products may occur and could impact its net revenues in a particular quarter. In addition, with a significant portion of net revenues and net income contributed by international operations, fluctuations of the U.S. dollar against foreign currencies could impact results of operations in a particular quarter. Further, increased competition in the CAD market could result in pricing pressures.

Liquidity and Capital Resources

The Company continues to generate cash flow from operations. In June 1987, the Company sold 2,500,000 shares of Common Stock in its second public offering and received net cash proceeds of approximately \$57,316,000. Cash and marketable securities, and working capital balances were \$96,631,000 and \$104,718,000, respectively, at January 31, 1988. In addition, the Company has a \$10,000,000 unsecured bank line of credit under which borrowings bear interest at the bank's prime rate. The Company had no outstanding borrowings under the line of credit as of January 31, 1988. The Company's principal commitments at January 31, 1988 consisted of obligations under operating and capital leases.

Longer term cash requirements, other than normal operating expenses, are anticipated to relate to the development of new software products and enhancement of existing products, financing of continued growth, and the possible future acquisition of software products or technologies complementary with the Company's business. The Company believes that its existing cash and marketable securities, cash generated from operations, and available borrowings under its line of credit are sufficient to satisfy its current cash requirements.

Report of Certified Public Accountants

The Board of Directors and Shareholders Autodesk, Inc.

We have examined the accompanying consolidated balance sheets of Autodesk, Inc. at January 31, 1988 and 1987, and the related consolidated statements of income, shareholders' equity, and changes in financial position for each of the three years in the period ended January 31, 1988. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Autodesk, Inc. at January 31, 1988 and 1987 and the consolidated results of operations and changes in financial position for each of the three years in the period ended January 31, 1988, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

San Francisco, California

February 26, 1988

Consolidated Statement of Income

Years ended January 31,	1988	1987	1986
Net revenues	\$79,257,000	\$52,382,000	\$29,531,000
Costs and expenses:			
Cost of revenues (Note 2)	10,552,000	7,864,000	4,582,000
Marketing and sales	19,641,000	12,465,000	7,319,000
Research and development	7,206,000	3,366,000	1,665,000
General and administrative	10,649,000	7,049,000	3,572,000
	48,048,000	30,744,000	17,138,000
Income from operations	31,209,000	21,638,000	12,393,000
Interest income	3,400,000	1,007,000	520,000
Other income	438,000	280,000	98,000
Income before income taxes	35,047,000	22,925,000	13,011,000
Provision for income taxes (Note 3)	14,506,000	11,305,000	6,490,000
Net income	\$20,541,000	\$11,620,000	\$ 6,521,000
Net income per share	\$0.89	\$0.55	\$0.34
Shares used in computing net income per share	23,180,000	21,030,000	18,990,000

See accompanying notes.

Consolidated Balance Sheet

January 31,	1988	1987
ASSETS		
Current assets:		
Cash and certificates of deposit	\$ 16,311,000	\$ 7,458,000
Marketable securities	80,320,000	16,843,000
Accounts receivable, net of allowance for doubtful accounts of \$1,109,000 (\$461,000 in 1987)	11,353,000	8,130,000
Inventories	1,712,000	1,123,000
Deferred income taxes	1,836,000	786,000
Prepaid expenses and other current assets	2,044,000	1,132,000
Total current assets	113,576,000	35,472,000
Furniture, equipment and leasehold improvements, at cost (Note 7):		
Furniture and equipment	9,619,000	4,419,000
Leasehold improvements	1,813,000	508,000
Less accumulated depreciation	(3,886,000)	(1,429,000)
Net furniture, equipment and leasehold improvements	7,546,000	3,498,000
Capitalized software	1,668,000	395,000
Other assets	2,661,000	982,000
	\$125,451,000	\$40,347,000

See accompanying notes.

January 31,	1988	1987
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,327,000	\$ 1,438,000
Accrued compensation	1,016,000	594,000
Other accrued liabilities	2,334,000	1,133,000
Income taxes payable	3,181,000	2,390,000
Total current liabilities	8,858,000	5,555,000
Deferred income taxes	1,548,000	500,000
Other noncurrent liabilities	280,000	310,000
Commitments (Note 7)		
Shareholders' equity (Notes 5 and 6):		
Preferred stock, no par value; 2,000,000 shares authorized, none issued or outstanding	—	—
Common stock, no par value; 50,000,000 shares authorized, 23,824,000 shares issued and outstanding (20,575,000 in 1987)	72,897,000	13,355,000
Retained earnings	40,082,000	19,870,000
Foreign currency translation adjustment	1,786,000	757,000
Total shareholders' equity	114,765,000	33,982,000
	\$125,451,000	\$40,347,000

See accompanying notes.

Consolidated Statement of Shareholders' Equity

Three year period ended January 31, 1988	Common stock		Retained earnings	Notes receivable for purchase of common stock	Foreign currency translation adjustment	Total shareholders' equity
	Shares	Amount				
Balance, January 31, 1985	12,462,000	\$ 296,000	\$ 1,729,000	\$(22,000)	\$ —	\$ 2,003,000
Common shares issued in initial public offering, net of issuance costs	3,630,000	12,028,000				12,028,000
Common shares issued upon exercise of incentive stock options and warrants	4,056,000	423,000				423,000
Reductions in notes receivable				22,000		22,000
Net income			6,521,000			6,521,000
Foreign currency translation adjustment					173,000	173,000
Balance, January 31, 1986	20,148,000	12,747,000	8,250,000	—	173,000	21,170,000
Common shares issued upon exercise of incentive stock options and warrants	427,000	471,000				471,000
Tax effect of stock options (Note 5)		137,000				137,000
Net income			11,620,000			11,620,000
Foreign currency translation adjustment					584,000	584,000
Balance, January 31, 1987	20,575,000	13,355,000	19,870,000	—	757,000	33,982,000
Common shares issued in second public offering, net of issuance costs	2,500,000	57,316,000				57,316,000
Common shares issued upon exercise of incentive stock options and warrants	453,000	1,142,000				1,142,000
Tax effect of stock options (Note 5)		850,000				850,000
Acquisition of Cadetron, Inc. (Note 1)	296,000	234,000	(329,000)			(95,000)
Net income			20,541,000			20,541,000
Foreign currency translation adjustment					1,029,000	1,029,000
Balance, January 31, 1988	23,824,000	\$ 72,897,000	\$40,082,000	\$ —	\$1,786,000	\$114,765,000

See accompanying notes.

Consolidated Statement of Changes in Financial Position

Years ended January 31,	1988	1987	1986
Sources of working capital:			
Operations:			
Net income	\$20,541,000	\$11,620,000	\$ 6,521,000
Charges against income not affecting working capital during the year:			
Depreciation and amortization	2,613,000	978,000	399,000
Deferred income taxes	1,048,000	380,000	63,000
Working capital provided from operations	24,202,000	12,978,000	6,983,000
Proceeds from issuance of common shares and warrants, net of issuance costs	59,308,000	607,000	12,451,000
Foreign currency translation adjustment	1,029,000	584,000	173,000
	84,539,000	14,169,000	19,607,000
Uses of working capital:			
Additions to furniture, equipment and leasehold improvements	6,505,000	2,837,000	1,352,000
Capitalized software	1,429,000	444,000	—
Additions to other assets	1,679,000	729,000	178,000
Other	125,000	52,000	(384,000)
	9,738,000	4,062,000	1,146,000
Increase in working capital	\$74,801,000	\$10,107,000	\$18,461,000
Increase (decrease) in the elements of working capital:			
Cash and certificates of deposit	\$ 8,853,000	\$ 4,255,000	\$ 2,010,000
Marketable securities	63,477,000	3,895,000	12,948,000
Accounts receivable	3,223,000	3,220,000	2,351,000
Inventories	589,000	466,000	441,000
Deferred income taxes	1,050,000	329,000	362,000
Prepaid expenses and other current assets	912,000	465,000	541,000
Accounts payable	(889,000)	(701,000)	(211,000)
Accrued compensation	(422,000)	(270,000)	447,000
Other accrued liabilities	(1,201,000)	(571,000)	(301,000)
Income taxes payable	(791,000)	(981,000)	(127,000)
Increase in working capital	\$74,801,000	\$10,107,000	\$18,461,000

See accompanying notes.

Note 1

Summary of Significant Accounting Policies

Operations

The Company develops and distributes computer-aided design and drafting (CAD) computer software. The Company distributes its products worldwide, and has operations in Australia, England, Japan, Sweden, Switzerland, and the United States.

Principles of Consolidation

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

Foreign subsidiaries' asset and liability accounts are translated from their respective functional currencies at the rates in effect at the balance sheet date, and revenue and expense accounts are translated at weighted average rates during the period. The foreign currency translation adjustments are reflected as a separate component of shareholders' equity. Gains and losses resulting from foreign currency transactions are included in net income (\$392,000 in 1988, \$250,000 in 1987, and \$85,000 in 1986).

Included in the consolidated statement of income for fiscal 1988 are the results of operations of Cadetron, Inc. In March 1987, the Company acquired all the common stock of Cadetron, a Delaware corporation, in exchange for 296,000 shares of the Company's common stock. The transaction has been accounted for as a pooling of interests. Consolidated results of operations for previous years have not been restated because the operations of Cadetron for these periods are not material.

In June 1987, the Company formed a new subsidiary which purchased assets of an Australian software distributor for \$551,000 in cash. The operations of this subsidiary are not material to the consolidated results of operations.

Marketable Securities

Marketable securities are stated at cost, which approximates market, and consist principally of municipal bonds with maturities not exceeding one year and money market preferred stocks.

Inventories

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

Depreciation and Amortization

Depreciation and amortization are computed using the straight-line method over the lesser of estimated useful lives of two to ten years or the term of the lease.

Capitalized Software

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

Employee Pre-tax Savings Plan

The Company has available a noncontributory pre-tax savings plan for its employees, which qualifies under Section 401(k) of the Internal Revenue Service. Under the plan, tax deferred contributions are made by employee participants electing to reduce their compensation by an amount up to the lesser of \$7,000 or 15 percent of includable compensation, as defined.

Net Income Per Share

Net income per share is based on the weighted average number of shares of common stock outstanding during each period, including shares issuable under warrants and options.

In May 1985, the Company effected a three-for-two split of the common stock and changed the common stock from \$.001 par value to no par value. In March 1987, the Company effected a three-for-one split of the common stock. All share and per share amounts in the consolidated financial statements and notes thereto have been adjusted to reflect the stock splits.

Royalties

Note 2

The Company licenses certain software that it utilized to develop the basic AutoCAD package and pays royalties to the developer who previously was a shareholder. In fiscal 1986, the Company introduced a new package, AutoCAD AEC, which it also licenses, and pays royalties to the developer. The royalties are payable at 10 percent to 24 percent of gross revenues from sales of the basic packages, which excludes separately priced enhancements developed by the Company. Royalty expense was \$1,118,000 in fiscal 1988, \$851,000 in fiscal 1987, and \$1,026,000 in 1986. Such costs are included as a component of cost of revenues.

Income Taxes

Note 3

The provision for income taxes consists of the following:

	1988	1987	1986
Federal:			
Current	\$10,347,000	\$ 7,938,000	\$5,225,000
Deferred	(540,000)	(140,000)	(430,000)
State:			
Current	1,784,000	2,036,000	1,176,000
Deferred	188,000	(147,000)	(19,000)
Foreign:			
Current	2,377,000	1,280,000	389,000
Deferred	350,000	338,000	149,000
	<u>\$14,506,000</u>	<u>\$11,305,000</u>	<u>\$6,490,000</u>

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

The principal reasons that the aggregate income tax provisions differ from the U.S. statutory rate (39 percent in 1988 and 46 percent in 1987 and 1986) are reflected below:

	1988	1987	1986
Income tax provision at statutory rate	\$13,644,000	\$10,545,000	\$5,985,000
Tax effect of foreign subsidiaries' earnings	(24,000)	106,000	96,000
State income taxes, net of federal tax benefit	1,204,000	1,020,000	625,000
Tax exempt interest	(993,000)	(317,000)	(75,000)
Other	675,000	(49,000)	(141,000)
	\$14,506,000	\$11,305,000	\$6,490,000

No provision has been made for federal income taxes on the unremitted earnings of the foreign subsidiaries (cumulative \$7,118,000 at January 31, 1988) as the Company plans to permanently reinvest all such earnings. However, if such earnings were remitted to the parent, foreign tax credits would be available to substantially offset the U.S. income tax.

In December 1987, the Financial Accounting Standards Board issued statement No. 96 "Accounting for Income Taxes." The statement is effective for fiscal years beginning after December 15, 1988, although earlier application is encouraged. The Company believes that the statement will not have a material effect on operating results.

Note 4

Bank Line of Credit

At January 31, 1988, the Company had a \$10,000,000 unsecured bank revolving line of credit expiring May 31, 1988, with interest at the prime rate. The Company is required to maintain a compensating cash balance aggregating 5 percent of the line and 5 percent of amounts borrowed. No amounts were borrowed at January 31, 1988.

Note 5

Stock Option Plans

Under the 1987 Stock Option Plan, incentive and nonqualified stock options may be granted to employees (nonqualified options may also be granted to directors and consultants of the Company) to purchase a maximum of 2,011,000 shares. The exercise price of the options is to be determined by the Board of Directors (at least 100 percent of the fair market value of the stock for incentive stock options). Prior to the 1987 plan, the Company had employee incentive stock option plans with similar provisions that have been terminated.

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

Changes in options outstanding are as follows:

	Number of shares	Per share	Total
Options outstanding at January 31, 1985	4,376,000	\$0.02-\$ 0.17	\$ 465,000
Granted	545,000	\$0.17-\$ 7.42	1,571,000
Exercised	3,998,000	\$0.02-\$ 0.33	413,000
Cancelled	37,000	\$0.02-\$ 2.00	7,000
Options outstanding at January 31, 1986	886,000	\$0.17-\$ 7.42	1,616,000
Granted	189,000	\$7.92-\$11.38	1,865,000
Exercised	384,000	\$0.17-\$ 7.42	470,000
Cancelled	35,000	\$0.17-\$11.38	264,000
Options outstanding at January 31, 1987	656,000	\$0.17-\$11.38	2,747,000
Granted	200,000	\$0.55-\$27.75	3,300,000
Exercised	352,000	\$0.17-\$17.42	1,142,000
Cancelled	77,000	\$0.33-\$27.75	1,707,000
Options outstanding at January 31, 1988	427,000	\$0.17-\$13.00	\$3,198,000
Options exercisable at January 31, 1988	309,000		\$1,726,000
Options available for grant at January 31, 1988	1,889,000		

During fiscal years 1988 and 1987, certain employees disposed of stock acquired through the exercise of incentive stock options, earlier than the mandatory holding period required of qualifying incentive stock options. The tax benefits for the deductions allowed to the Company for such dispositions have been recorded as an increase to common stock.

Preferred Stock

Note 6

The Articles of Incorporation authorize a class of 2,000,000 shares of Preferred Stock, none of which are issued or outstanding. The Board of Directors has the authority to issue the Preferred Stock in one or more series and to fix rights, preferences, privileges, and restrictions, including dividends, and the number of shares constituting any series or the designation of such series, without any further vote or action by the shareholders.

Lease Commitments

Note 7

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

At January 31, 1988, \$582,000 (\$312,000 in 1987) of office equipment capitalized under equipment leases was included in furniture and equipment, of which \$323,000 (\$141,000 in 1987) has been amortized.

At January 31, 1988, future minimum lease payments under capital leases (included in other non-current and accrued liabilities) and noncancellable operating leases are as follows:

	Capital leases	Operating leases
Year ending January 31:		
1989	\$174,000	\$ 2,974,000
1990	99,000	2,507,000
1991	13,000	2,027,000
1992	13,000	1,829,000
1993	14,000	1,597,000
Thereafter	—	2,621,000
Total minimum lease payments	313,000	\$13,555,000
Less amount representing interest	41,000	
Present value of minimum lease payments	272,000	
Less current portion	151,000	
	\$121,000	

Rent expense for the year ended January 31, 1988 was \$2,429,000 (\$1,245,000 in 1987 and \$664,000 in 1986).

Note 8

Quarterly Financial Information (Unaudited)

Summarized quarterly financial information for fiscal years 1988 and 1987 are as follows (000's except per share data):

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total year
1988					
Revenues	\$17,292	\$18,778	\$20,208	\$22,979	\$79,257
Gross profit	15,177	16,412	17,337	19,779	68,705
Net income	3,880	4,816	5,436	6,409	20,541
Net income per share	.18	.21	.23	.27	.89
1987					
Revenues	\$11,027	\$12,173	\$13,651	\$15,531	\$52,382
Gross profit	9,508	10,462	11,494	13,054	44,518
Net income	2,427	2,714	3,018	3,461	11,620
Net income per share	.12	.13	.14	.16	.55

Segment Information—Worldwide Operations

Note 9

The Company's business consists of developing and selling computer-aided design software, which is marketed worldwide. Information regarding geographic areas at January 31, 1988, 1987 and 1986 and for the years then ended is as follows (000s):

	United States	Western Europe	Pacific Basin	Consolidation eliminations	Consolidated total
Year ended January 31, 1988:					
Revenues	\$ 49,968	\$23,373	\$5,916	\$ —	\$ 79,257
Revenues between geographic areas	5,280	—	—	(5,280)	—
Total revenues	\$ 55,248	\$23,373	\$5,916	\$(5,280)	\$ 79,257
Operating income	\$ 24,180	\$ 6,259	\$ 770	\$ —	\$ 31,209
Income before taxes	\$ 27,974	\$ 6,274	\$ 799	\$ —	\$ 35,047
Identifiable assets	\$111,169	\$15,413	\$4,579	\$(5,710)	\$125,451
Year ended January 31, 1987:					
Revenues	\$ 36,335	\$13,774	\$2,273	\$ —	\$ 52,382
Revenues between geographic areas	2,796	—	—	(2,796)	—
Total revenues	\$ 39,131	\$13,774	\$2,273	\$(2,796)	\$ 52,382
Operating income (loss)	\$ 18,689	\$ 3,525	\$ (576)	\$ —	\$ 21,638
Income (loss) before taxes	\$ 19,636	\$ 3,754	\$ (465)	\$ —	\$ 22,925
Identifiable assets	\$ 33,132	\$ 9,105	\$1,172	\$(3,062)	\$ 40,347
Year ended January 31, 1986:					
Revenues	\$ 23,051	\$ 5,881	\$ 599	\$ —	\$ 29,531
Revenues between geographic areas	1,099	—	—	(1,099)	—
Total revenues	\$ 24,150	\$ 5,881	\$ 599	\$(1,099)	\$ 29,531
Operating income (loss)	\$ 11,530	\$ 1,047	\$ (184)	\$ —	\$ 12,393
Income before taxes	\$ 12,049	\$ 1,149	\$ (187)	\$ —	\$ 13,011
Identifiable assets	\$ 22,206	\$ 3,564	\$ 716	\$(1,803)	\$ 24,683

Information with respect to Western Europe and Pacific Basin represents the operations of the Company's foreign subsidiaries. Included in sales from the United States are \$4,998,000 (\$3,963,000 in 1987, \$2,241,000 in 1986) to unaffiliated customers outside the United States.

At January 31, 1988, 1987 and 1986, total foreign net equity was \$9,039,000, \$3,709,000 and \$1,362,000, respectively.

Corporate Information

Officers

Alvar Green
President, Chief Executive Officer,
Chief Financial Officer

Daniel Drake
Executive Vice President

Malcolm Davies
Vice President—Marketing & Sales

Keith Marcelius
Vice President—
Research & Development

Richard Handyside
Vice President—European Operations

Christopher Record
General Counsel, Secretary,
Vice President of Corporate
Business Development

Directors

John Walker
Chairman of the Board
Autodesk, Inc.

Alvar Green
President, Chief Executive Officer,
Chief Financial Officer
Autodesk, Inc.

Daniel Drake
Executive Vice President
Autodesk, Inc.

Gregory Lutz
Programmer and Systems Analyst
Autodesk, Inc.

J. Hallam Dawson
Chairman of IDI Associates of San Francisco

James D. Stocker
Board Member of A P Propane, Inc.

Headquarters

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

Legal Counsel

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

Transfer Agent

First Interstate Bank
Corporate Trust Dept.
345 California Street
San Francisco, CA 94104

Independent Accountants

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

**Per Share Stock Data and
Dividend Policy—Fiscal Year**

1988	High	Low	Volume
First Quarter	31½	16½	13,137,331
Second Quarter	28½	20¾	15,129,636
Third Quarter	32¾	13	14,979,864
Fourth Quarter	22¾	16	11,755,795
1987*	High	Low	Volume
First Quarter	10¼	7¾	7,953,780
Second Quarter	13½	7¾	8,764,023
Third Quarter	12¾	8½	9,560,013
Fourth Quarter	17	12	10,850,856

The Company's Common Stock is traded over the counter on the NASDAQ National Market System using the symbol "ACAD." The above tables show the range of prices for a share of Common Stock during the Company's fiscal quarters indicated, as furnished by NASDAQ. As of April 4, 1988, the approximate number of shareholders of record of Common Stock was 1,121.

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

Annual Meeting

The Company's Annual Meeting of Shareholders will be held at 4:00 P.M. on June 10, 1988, at the Autodesk headquarters, 2320 Marinship Way, Sausalito, CA 94965.

Form 10-K

A copy of the Company's Annual Report on Form 10-K for fiscal year 1988 filed with the Securities and Exchange Commission may be obtained without charge by a written request to the Company Secretary at 2320 Marinship Way, Sausalito, CA 94965.

*Stock data is after giving effect for the three-for-one stock split in March 1987.

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