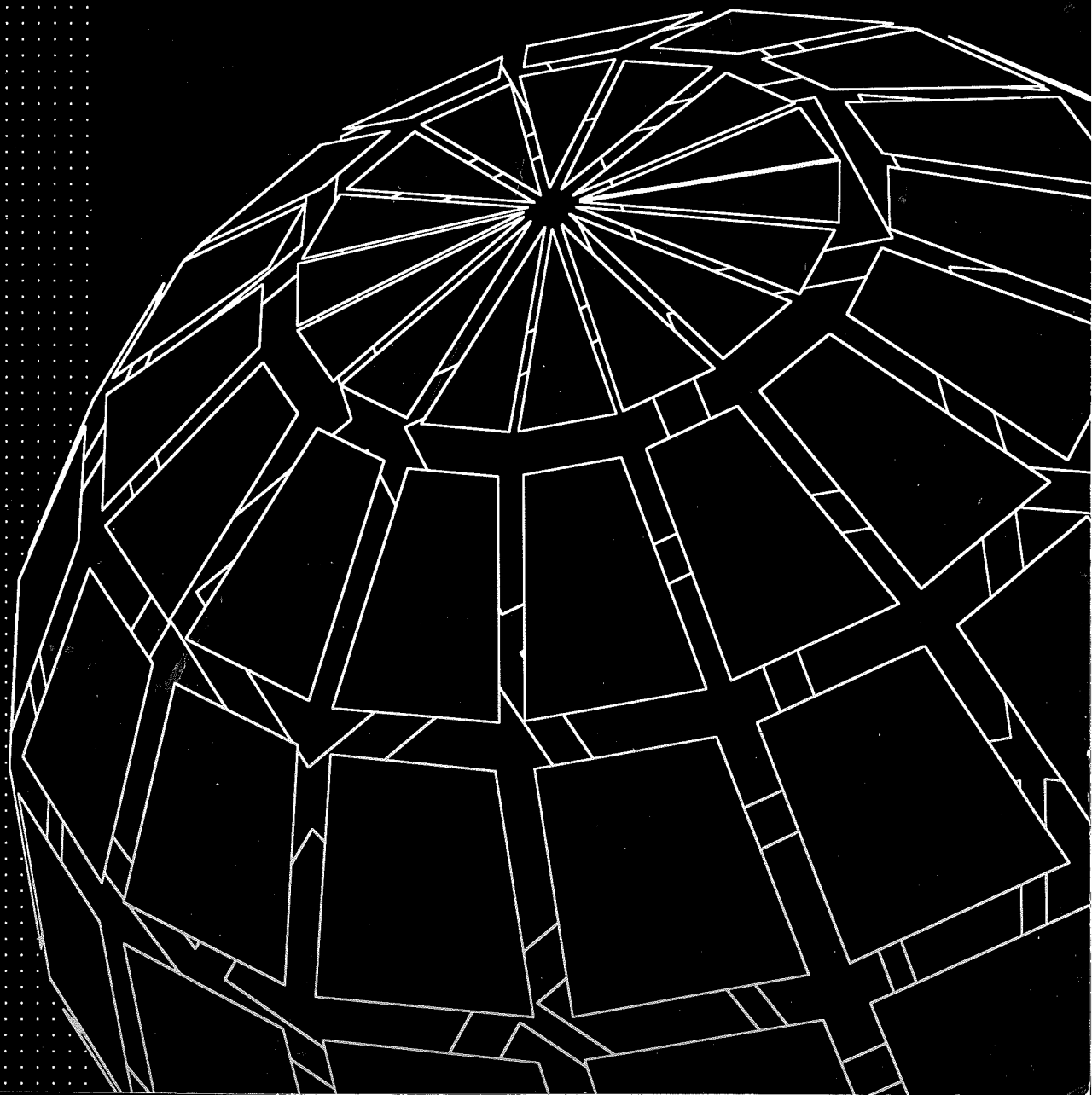
AUTODESK 1987 ANNUAL REPORT



AUTODESK MARKETS PRODUCTS WORLDWIDE

COMPANY PROFILE

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

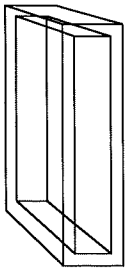
■ Locations of Autodesk, Inc. Offices

▪ Representative Metropolitan Locations of Authorized Resellers

"We have made an evaluation from a perspective of more than twenty man-years of CAD experience in many disciplines, and have emerged with what we believe is the best choice for Scott Paper Company worldwide: AutoCAD."

Philip M. Grande, Chief Project Engineer–Technology, Scott Paper Company

TO OUR SHAREHOLDERS



It's very easy to forget that just five years ago, computer-aided design was the exclusive domain of mini- and mainframe computers. If you couldn't afford one of these $100,000 to $500,000 systems, you were relegated to the drawing board.

The plan when AutoCAD® was introduced was to make computer-aided design a software-only product and allow the users to select their own hardware depending upon their own requirements. Our strategy was to make AutoCAD hardware independent so that it would benefit from the anticipated rapid advances in desktop computer technology. This strategy worked. The company that began in 1982 with $59,000 of capital contributed by the people who built the product is now the leading supplier of CAD software.

Today AutoCAD is used throughout the world for designing buildings, automobiles, offshore oil platforms, virtually anything that requires design, planning, and engineering. In addition, more applications are being developed every day.

Fiscal year 1987 has been a year of growth and new opportunities for Autodesk. The introduction of AutoCAD 2.5, a much faster version than previous releases with new editing features that greatly increase its usefulness with complex drawings, represented one of the most significant of the seven releases of AutoCAD. The 32-bit versions of AutoCAD were also released, including versions for the Sun Workstation, the Apollo, and the IBM RT PC; recently, we also announced the DEC VAXStation 2000 and VAXStation GPX version of AutoCAD. We also released a version of AutoCAD AEC® utilizing the additional capabilities of AutoCAD 2.5, dramatically increasing the productivity of architects, and a new version of CAD/camera,™ making it twice as powerful as its predecessor. In the third quarter we also began shipping AutoSketch,™ a $79.95 tool for anyone who draws. It delivers more power than the original AutoCAD, and is aimed at the first time user who may not yet need the power of a complete CAD system. When that need does arise, however, the drawings produced on AutoSketch are compatible with AutoCAD. Products demonstrated for release in calendar year 1987 were AutoShade,™ which generates realistic, full-color shaded renderings from AutoCAD 3D visualizations, and AutoCAD AEC Mechanical, which extends the use of the AEC package to the design of mechanical systems for buildings, such as heating, ventilating, and air conditioning. A preview of AutoCAD 2.6 was given, showing greater 3D capabilities and presenting greater opportunity to our many application developers who have built successful businesses utilizing AutoCAD's open architecture to address vertical markets.

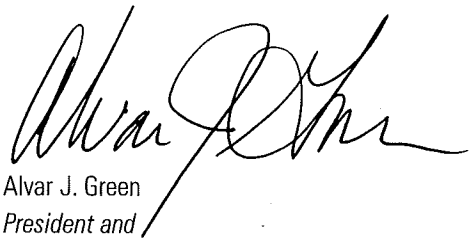
From an international standpoint, we have seen business grow from 30% of total revenue in fiscal 1986 to 38% in fiscal 1987. Distribution agreements were signed with IBM in the U.K., in Italy, and in Japan. The work force in the foreign subsidiaries now accounts for 33% of the total number of employees. International sales are made from the Sausalito office addressing markets which include Canada, South America, Australia, and other Pacific Rim countries.

The upcoming year promises more excitement with ever-increasing hardware capabilities. Already we have seen the 80386 technology provide increased power for AutoCAD. Such new technologies will continue to enhance our products and offer greater avenues for software advancement.

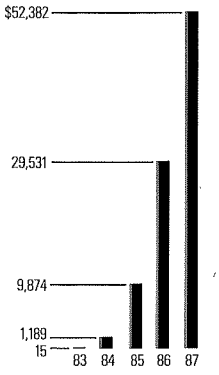
We believe that more and more major companies will recognize the value of AutoCAD as a way of making CAD available full-time to every engineer and draftsman. The Cadetron acquisition early in fiscal year 1988 should help solidify our position in the marketplace by bringing real solid modeling to desktop computers for the first time. As this product moves through selected distribution, solid

modeling will, like CAD, change from an elitist computer application to an engineer's tool. The move into solid modeling also demonstrated to major companies Autodesk's commitment to the mechanical engineering marketplace.

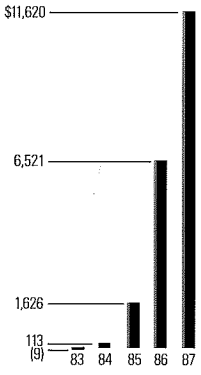
The past year represented our first full year as a public company. I would like to thank our early investors for sharing with us the belief that the low-cost, high-performance CAD market offers immense opportunities. We will continue to work hard to make the most of our opportunities, and expect to remain at the forefront of the CAD industry.



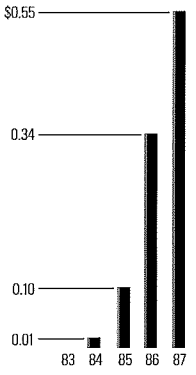
Alvar J. Green
President and
Chief Executive Officer



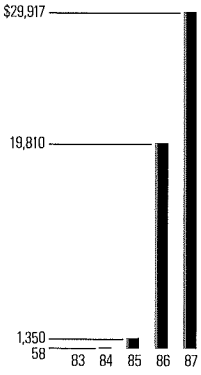
Net Revenues



Net Income



Net Income Per Share



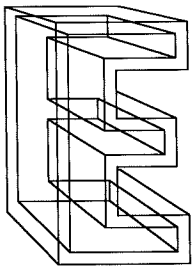
Working Capital
(000's, except for per share data)

SELECTED FINANCIAL DATA

Fiscal Year	1987	1986	1985	1984	1983*
		(000's, except for per share data)			
Net revenues	$52,382	$29,531	$9,874	$1,189	$15
Gross profit	$44,518	$24,949	$8,360	$961	$9
Operating expenses	$22,880	$12,556	$5,542	$841	$20
Provision for income taxes	$11,305	$6,490	$1,255	$12	—
Net income	$11,620	$6,521	$1,626	$113	$(9)
Common and common equivalent shares †	21,030	18,990	16,500	15,900	14,550
Per share data					
Net income	$0.55	$0.34	$0.10	$0.01	—
Book value	$1.65	$1.05	$0.16	$0.04	$0.01
Total assets	$40,347	$24,683	$4,899	$543	$64
Debt	$95	$162	—	—	—
Shareholders' equity	$33,981	$21,171	$2,004	$199	$60

*For the period from inception (April 9, 1982) to January 31, 1983

†Reflects a 3-for-1 stock split effective March 6, 1987.



very object on the planet can be broken into basic geometric shapes, and defined using basic principles of measurement.

This simple statement summarizes the underlying principle of AutoCAD. We designed it to be a basic tool for drawing objects. Whether they be drawings of entire buildings, machine parts, or a factory floor plan, AutoCAD makes it easy to define, alter, and manipulate them.

Much like a word processing program, which enables writers to revise their text on-screen and store it for later use, AutoCAD allows designers to create and revise drawings on-screen. With it, they can copy, dimension, erase, extend, mirror, move, rotate, scale, stretch, and trim any part of a drawing or the entire drawing.

AutoCAD accomplishes in minutes tasks which would take hours if executed by hand. And, like any good tool, it frees the user to concentrate on the end product rather than the process of getting there.

AutoCAD is designed to give customers the flexibility to create their own solutions, and to modify the software to meet their specific needs. Through use of the powerful programming language, AutoLISP,™ they can create individualized menus and commands to facilitate frequently executed functions. This permits AutoCAD to be customized for virtually any application in the fields of architecture, design, or engineering.

WE'RE THE STANDARD FOR MICRO-BASED CAD.

Because of AutoCAD's many powerful features—and the fact that it can be changed and adapted so easily—our product is often referred to as "the de facto standard for micro-based CAD." It is presently supported by more third-party software developers than any other CAD program.

There are over 350 third-party applications programs available that extend AutoCAD's productivity even further. These range from civil engineering and manufacturing, to mapping and stage lighting.

In addition, an increasing number of manufacturers and suppliers are offering programs which allow drawings of their own products to be inserted directly into an AutoCAD layout, thus eliminating the need for architects and designers to draw in these products themselves.

AutoCAD has become the most widely used CAD program in the world; besides English, it's also available in French, German, Italian, Japanese, Spanish, and Swedish. Customers are assured that AutoCAD can always be updated and revised to meet changing conditions in their industries.

THE A/E/C MARKET: PROVIDING INTEGRATED SOLUTIONS.

In 1986, Autodesk launched a major effort to increase our share of the A/E/C (Architecture, Engineering, and Construction) market. A/E/C covers everything from building bridges and power plants to condominiums and office complexes.

"With a CAD system, you build drawings rather than draw them. There can be a marriage between the best of traditional, creative architecture and the stimulating productivity of well-researched, ever-developing automation. And from this environment of integrated design support will rise an architecture that exceeds the sum of the two worlds it unites."
Frank Miller, MIT Department of Architecture

Autodesk is revolutionizing the way we're building the world around us. Large architectural firms, small design offices, engineering teams, and independent contractors and consultants are using AutoCAD on individual buildings and entire projects. AutoCAD is the most widely used CAD system in the world.

"Autodesk's AutoCAD holds the enviable position of dominating the microcomputer CAD market, and comes close to selling more than all its competitors combined. AutoCAD has become something of a de facto standard."

PC Magazine, March 11, 1986

In a market where many different disciplines are brought to bear on a single project, AutoCAD offers an integrated solution. It has the versatility necessary to move a project through its entire life cycle, from building design to facilities management.

The architect can use AutoCAD to generate his initial drawings, and then turn those drawings directly over to the engineer for structural analysis and development into a finished plan. These plans, in turn, are distributed to a variety of contractors and construction specialists for execution. One CAD program is used throughout one entire project.

Besides the wealth of third-party programs that increase AutoCAD's A/E/C capabilities, we offer two enhancement programs of our own which are gaining acceptance in this market:

AutoCAD AEC Architectural offers design and drafting solutions to architects, engineers, and construction managers. It contains a complete library of industry-standard shapes and symbols which eliminates repetitive drawing. Included are structural components like doors and windows, plumbing, electrical, furniture, appliances, and site features. Anything that has been drawn once can be copied, resized, mirrored, or revised. As a working drawing is created, AutoCAD AEC creates a database in which the specifications for each element of the design are stored. Later, this can be extracted for detailed project documentation for use by consultants, engineers, and contractors, or used by clients for renovation or ongoing facilities management.

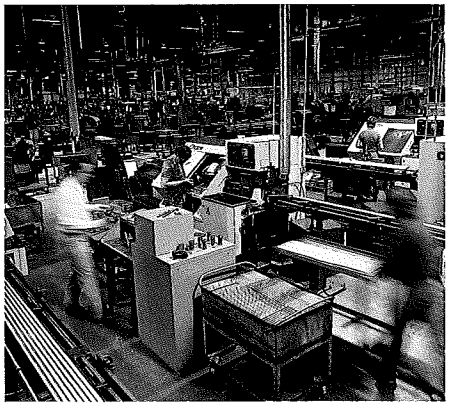
We designed AutoCAD AEC Mechanical specifically for the mechanical engineer who designs building systems. With its extensive library of standard shapes and symbols, diagrams for pipe layout and risers, HVAC equipment, fire protection, controls and meters, and duct layout can be created and edited easily. AEC Mechanical also provides a graphic interface to other duct analysis programs to facilitate design, drafting, and calculation on a single drawing.

MANUFACTURING: AUTODESK MEETS THE CHALLENGE.

According to U.S. Department of Commerce figures, over 70% of the manufacturing establishments in the United States are companies with less than 20 employees. Many of these firms may be relying on outdated manufacturing techniques because they believe they cannot afford the expensive mainframe CAD/CAM systems used by large manufacturers.

AutoCAD offers small companies an opportunity to increase their productivity and profitability without a massive outlay of capital.

When bundled with third-party mechanical engineering programs, AutoCAD has applications in virtually every aspect of the manufacturing process. These include the design of manufacturing equipment, parts and tooling, molds and dies, numerical control equipment, and even plant and assembly floor layout. From aerospace to automobiles, any repetitive job that requires high tolerances is a candidate for AutoCAD.



Automotive parts manufacturer Ace Electric, an Echlin company, is committed to the delivery of extraordinarily precise, state-of-the-art machined parts. Incorporation of AutoCAD into the design-to-completion manufacturing process is enabling ACE to meet its objective of just-in-time production.

In the largest project in its history, the Bureau of Reclamation is building the Central Arizona Project (CAP) to bring water to the Arizona desert. The Bureau put the power of CAD into the hands of its engineers, technicians, draftsmen, and others working on CAP, and is using AutoCAD as the powerful tool for integrating the many design and drawing facets of the Project.

"Autodesk has always been committed to making AutoCAD the standard for CAD—on all machines, in every application area, in companies large and small, and around the world."
John Walker, Chairman of the Board, Autodesk, Inc.

Since AutoCAD is a PC-based technology, it can be used right on the factory floor. Implementation time is short because employees can be trained in its use quickly.

In 1986 Autodesk made significant inroads into large-scale manufacturing as well. With the release of AutoCAD version 2.5, the program is compatible with the powerful 32-bit computers, including the IBM RT PC, the Apollo DOMAIN Series 3000 Personal Workstations, and Sun Microsystems' Sun-2 and Sun-3 technical workstations. In addition, AutoCAD version 2.52 is compatible with the DEC VAXStations 2000 and GPX.

For the first time, professionals working in large companies and in manufacturing will have access to what has become the industry standard for CAD software.

Besides opening up new markets for Autodesk, this move reinforces its commitment to providing its existing base of over 80,000 AutoCAD customers with a significant growth path into high-performance 32-bit technology.

THE EDUCATION MARKET: HELPING TO BUILD TOMORROW'S WORLD.

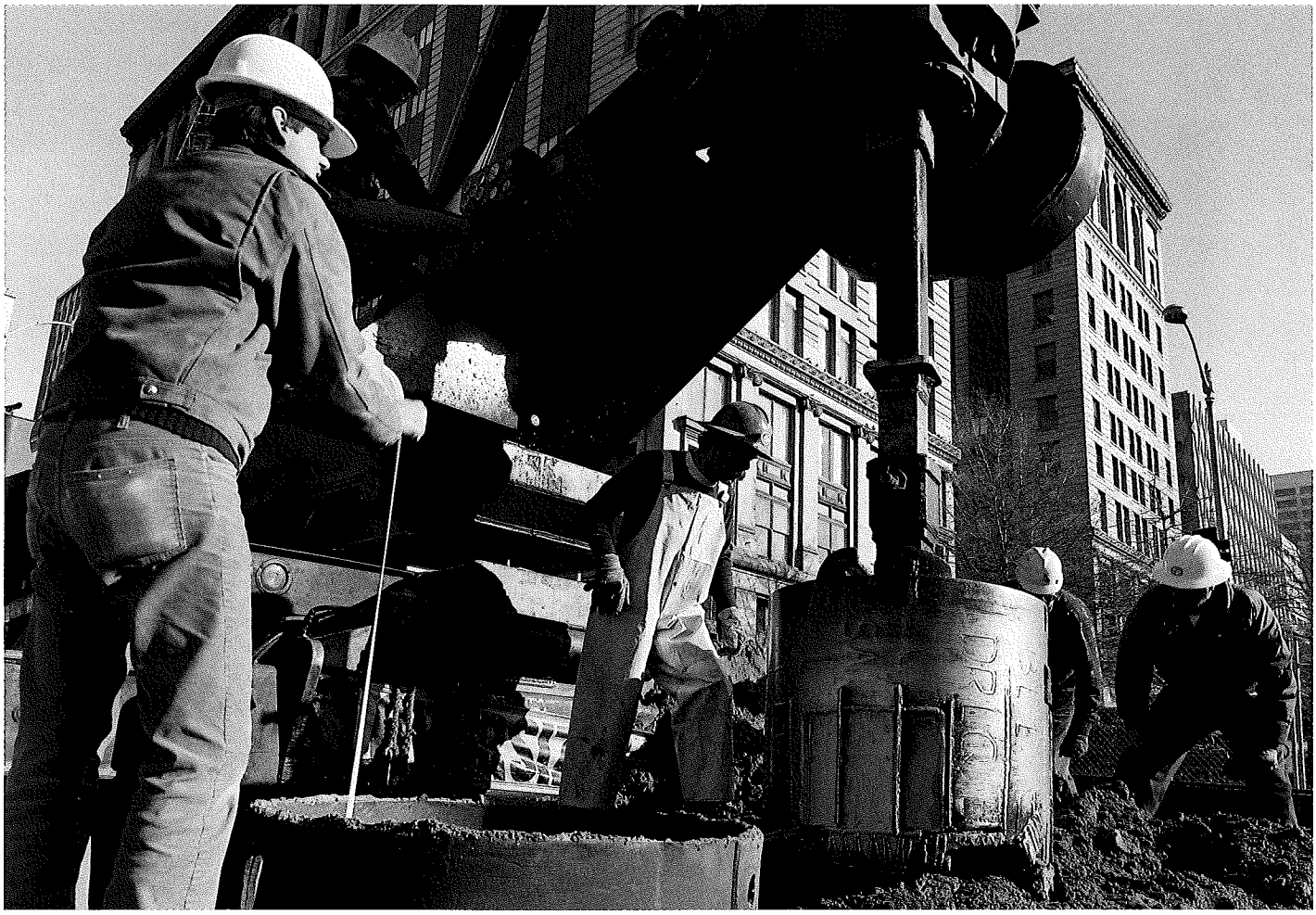
Because computer-aided design is now a primary tool in architecture, engineering, and manufacturing, we firmly believe it's essential that students entering these fields know how to use CAD before they begin their careers. So, through a variety of programs and services, Autodesk is helping educators effectively teach CAD in high schools, vocational/technical schools, colleges, and universities throughout the world.

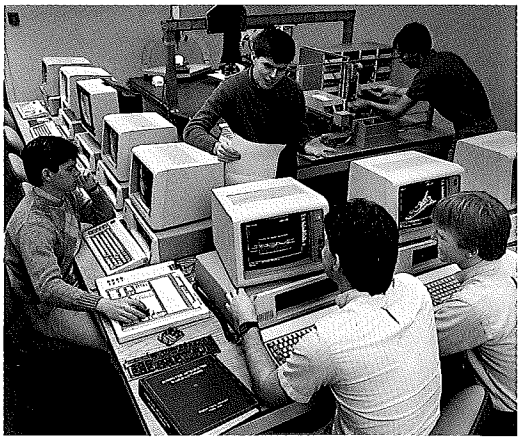
One of the most important of these is a unique in-service training program for teachers, the goal of which is to reach as many teachers as possible, in the shortest period of time.

In cooperation with various state departments of education, we're establishing training centers where educators are taught how to teach CAD in the classrooms. Then they return to their school districts and train their colleagues. In addition to its dual training function, the program also provides teachers with all the training and curriculum materials they need to effectively implement CAD, including overhead transparencies, videotapes, manuals, tutorials, and training outlines.

Another important program, still in the early stages of development is the Autodesk Consortium for Education (ACE). The Consortium is designed to link together the country's major colleges and universities in a "CAD communications network" for developing and sharing information on innovative CAD programs and to facilitate the widespread integration of CAD into college curricula.

Through continual product enhancements and development, and through distinctive services and programs, Autodesk is both confirming our commitment to the future of CAD, and taking steps necessary to maintain our position of excellence and leadership in the CAD industry.





Autodesk is developing distinctive programs to provide leading educational institutions with the software, consulting services, and direction necessary to bring the latest in manufacturing technology to faculty and students. Such programs are dedicated to stimulating excellence in education, and productivity and profitability in industry.

Parsons Brinckerhoff Quade & Douglas, Inc., the nation's 17th largest architectural and engineering firm, uses AutoCAD in conjunction with its design work on the $415 million Seattle Underground Transit Tunnel project.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Shareholders, Autodesk, Inc.

We have examined the accompanying consolidated balance sheets of Autodesk, Inc. at January 31, 1987 and 1986, 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, 1987. 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, 1987 and 1986, and the consolidated results of operations and changes in financial position for each of the three years in the period ended January 31, 1987, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

San Francisco, California
February 20, 1987

Years ended January 31,	1987	1986	1985
Net revenues	$52,381,802	$29,530,939	$9,873,974
Costs and expenses:			
Cost of revenues *(Note 7)*	7,863,802	4,582,361	1,514,106
Marketing and sales	12,464,871	7,318,760	2,870,820
Research and development	3,366,411	1,664,837	1,249,164
General and administrative	7,048,582	3,572,075	1,422,419
	30,743,666	17,138,033	7,056,509
Income from operations	21,638,136	12,392,906	2,817,465
Interest income	1,256,666	605,289	46,122
Other income	29,997	12,662	17,509
Income before income taxes	22,924,799	13,010,857	2,881,096
Provision for income taxes *(Note 2)*	11,305,000	6,490,000	1,255,000
Net income	$11,619,799	$ 6,520,857	$1,626,096
Net income per share	$0.55	$0.34	$0.10
Shares used in computing net income per share *(Notes 1 and 4)*	21,030,000	18,990,000	16,500,000

See accompanying notes.

CONSOLIDATED BALANCE SHEET

Autodesk, Inc.

January 31,	1987	1986
ASSETS		
Current assets:		
Cash and certificates of deposit of $440,654 ($1,425,857 in 1986)	$ 7,457,916	$ 3,202,338
Marketable securities, at cost which approximates market	16,843,221	12,947,716
Accounts receivable, net of allowance for doubtful accounts of $461,213 ($274,195 in 1986)	8,129,893	4,909,468
Inventory	1,122,792	657,117
Prepaid income taxes *(Note 2)*	786,000	457,000
Prepaid expenses and other current assets	1,132,147	667,392
Total current assets	35,471,969	22,841,031
Furniture, equipment and leasehold improvements, at cost *(Note 3):*		
Furniture and equipment	4,418,755	2,030,773
Leasehold improvements	507,918	59,094
Less accumulated depreciation	(1,428,481)	(500,105)
Net furniture, equipment and leasehold improvements	3,498,192	1,589,762
Other assets	1,376,498	252,696
	$40,346,659	$24,683,489

See accompanying notes.

January 31,	1987	1986
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,438,421	$ 737,183
Accrued compensation	594,343	324,433
Other accrued liabilities	1,028,947	503,573
Income taxes payable *(Note 2)*	2,389,562	1,408,194
Current portion of obligations under capital leases *(Note 3)*	103,660	57,624
Total current liabilities	5,554,933	3,031,007
Obligations under capital leases *(Note 3)*	94,951	162,174
Other noncurrent liabilities	215,308	200,003
Deferred income taxes *(Note 2)*	500,000	119,642
Commitments *(Note 3)*		
Shareholders' equity *(Notes 4, 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, 20,575,356 shares issued and outstanding (20,148,156 in 1986)	13,354,558	12,747,247
Retained earnings	19,870,290	8,250,491
Foreign currency translation adjustment	756,619	172,925
Total shareholders' equity	33,981,467	21,170,663
	$40,346,659	$24,683,489

See accompanying notes.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Autodesk, Inc.

Three year period ended January 31, 1987	Common stock Shares	Common stock Amount	Retained earnings	Notes receivable for purchase of common stock	Foreign currency translation adjustment	Total shareholders' equity
BALANCE, JANUARY 31, 1984	5,502,735	$ 123,293	$ 103,538	$(28,000)	$ —	$ 198,831
Common shares issued upon exercise of incentive stock options and warrants *(Notes 4 and 5)*	6,959,514	173,290				173,290
Reductions in notes receivable				6,000		6,000
Net income			1,626,096			1,626,096
BALANCE, JANUARY 31, 1985	12,462,249	296,583	1,729,634	(22,000)	—	2,004,217
Common shares issued, net of issuance costs *(Note 4)*	3,630,000	12,027,776				12,027,776
Common shares issued upon exercise of incentive stock options *(Note 5)*	3,998,157	413,264				413,264
Common shares issued upon exercise of warrants *(Note 4)*	57,750	9,624				9,624
Reductions in notes receivable				22,000		22,000
Net income			6,520,857			6,520,857
Foreign currency translation adjustment					172,925	172,925
BALANCE, JANUARY 31, 1986	20,148,156	12,747,247	8,250,491	—	172,925	21,170,663
Common shares issued upon exercise of incentive stock options and warrants *(Notes 4 and 5)*	427,200	470,575				470,575
Tax effect of stock options *(Note 4)*		136,736				136,736
Net income			11,619,799			11,619,799
Foreign currency translation adjustment					583,694	583,694
BALANCE, JANUARY 31, 1987	20,575,356	$13,354,558	$19,870,290	$ —	$756,619	$33,981,467

See accompanying notes.

Years ended January 31,	1987	1986	1985
SOURCES OF WORKING CAPITAL:			
Operations:			
Net income	$11,619,799	$ 6,520,857	$1,626,096
Charges against income not affecting working capital during the year:			
Depreciation and amortization	977,577	398,548	86,882
Deferred income taxes	380,358	62,986	56,656
Working capital provided from operations	12,977,734	6,982,391	1,769,634
Reductions in notes receivable	—	22,000	6,000
Proceeds from issuance of common shares and warrants, net of issuance costs	607,311	12,450,664	173,290
Foreign currency translation adjustment	583,694	172,925	—
Increase in other noncurrent liabilities	15,305	200,003	—
Increase in obligations under capital leases	—	162,174	—
	14,184,044	19,990,157	1,948,924
USES OF WORKING CAPITAL:			
Additions to furniture, equipment and leasehold improvements	2,836,806	1,351,511	585,490
Additions to other assets	1,173,003	178,141	71,893
Decrease in obligations under capital leases	67,223	—	—
	4,077,032	1,529,652	657,383
Increase in working capital	$10,107,012	$18,460,505	$1,291,541
INCREASES (DECREASES) IN THE ELEMENTS OF WORKING CAPITAL:			
Cash and certificates of deposit	$ 4,255,578	$ 2,010,390	$1,120,817
Marketable securities	3,895,505	12,947,716	—
Accounts receivable	3,220,425	2,351,346	2,293,551
Inventory	465,675	440,626	168,347
Prepaid income taxes	329,000	362,395	94,605
Prepaid expenses and other current assets	464,755	540,551	108,191
Accounts payable	(701,238)	(211,102)	(418,400)
Accrued compensation	(269,910)	446,842	(664,790)
Other accrued liabilities	(525,374)	(243,214)	(141,307)
Income taxes payable	(981,368)	(127,421)	(1,269,473)
Current portion of obligations under capital leases	(46,036)	(57,624)	—
Increase in working capital	$10,107,012	$18,460,505	$1,291,541

See accompanying notes.

Autodesk, Inc.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS

The Company was incorporated on April 9, 1982, and is engaged in developing and distributing computer-aided design and drafting (CAD) computer software. The Company distributes its products principally in North America, Western Europe and Japan, and has operations in the United States, England, Switzerland, Sweden and Japan.

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 from the consolidated financial statements.

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.

In February 1987, the Company entered into an agreement to acquire Cadetron, Inc., a Delaware corporation, in March 1987 by issuing 296,000 shares of common stock. The acquisition will not have a material effect on the Company's financial position or results of operations.

At January 31, 1984, the Company had royalty agreements with certain European shareholders. The agreements gave non-exclusive rights to sell AutoCAD software in exchange for royalty payments equal to a percentage of the related sales. These royalty agreements expired in 1985, at which time the Company established operating subsidiaries in Europe. Related royalty revenue was $116,032 in fiscal 1985 and is included in net revenues.

INVENTORY

Inventory consists of diskettes and technical manuals and is stated at the lower of cost (determined on the first-in, first-out method) or market.

DEPRECIATION AND AMORTIZATION

Furniture, equipment and leasehold improvements are stated at cost. Depreciation and amortization are computed using the straight-line method over the lesser of estimated useful life of two to five years or the term of the lease.

CAPITALIZED SOFTWARE COSTS

Prior to fiscal 1987, costs related to the research and development of software products were expensed as incurred. 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. At January 31, 1987, costs capitalized were $394,759, net of amortization of $49,201, which amount is included in other assets.

INVESTMENT TAX CREDIT

Beginning in calendar year 1986, investment tax credit is no longer allowed due to the repeal of this provision by federal tax legislation. Investment tax credits allowed prior to 1986 were accounted for on the flow-through method.

NET INCOME PER SHARE

Net income per share is based on the weighted average number of common shares outstanding during each period, including shares issuable under warrants and options based on the treasury stock method, giving retroactive effect to the three-for-one stock split effected in March 1987 (Note 4). For purposes of computing net income per share, certain shares issued prior to the public offering of the Company's common stock are considered to be outstanding throughout the period.

INCOME TAXES NOTE 2

The provision for income taxes consists of the following:

	1987	1986	1985
FEDERAL:			
Current	$ 7,938,000	$5,225,000	$ 917,000
Deferred	(140,000)	(430,000)	(74,000)
STATE:			
Current	2,036,000	1,176,000	232,000
Deferred	(147,000)	(19,000)	1,000
FOREIGN:			
Current	1,280,000	389,000	144,000
Deferred	338,000	149,000	35,000
	$11,305,000	$6,490,000	$1,255,000

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 principally arises 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 46 percent U.S. statutory rate are reflected below:

	1987	1986	1985
Income tax provision at statutory rate	$10,545,000	$5,985,000	$1,325,000
Tax effect of foreign subsidiaries' earnings	106,000	96,000	(33,000)
State income taxes, net of federal tax benefit	1,020,000	625,000	126,000
Tax exempt interest	(317,000)	(75,000)	—
Other	(49,000)	(141,000)	(163,000)
	$11,305,000	$6,490,000	$1,255,000

No provision has been made for federal income taxes on the unremitted earnings of the foreign subsidiaries (cumulative $2,375,000 at January 31, 1987) 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.

NOTE 3 COMMITMENTS

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

At January 31, 1987, $311,564 ($272,524 in 1986) of office equipment capitalized under equipment leases is included in furniture and equipment, of which $140,494 ($60,353 in 1986) has been amortized.

At January 31, 1987, future minimum lease payments under capital leases and noncancellable operating leases are as follows:

	Capital leases	Operating leases
Year ending January 31:		
1988	$124,779	$1,126,000
1989	101,079	971,000
1990	24,343	600,000
1991	—	355,000
1992	—	301,000
And thereafter	—	352,000
Total minimum lease payments	250,201	$3,705,000
Less amount representing interest	51,590	
Present value of minimum lease payments	198,611	
Less current portion	103,660	
	$ 94,951	

Rent expense for the year ended January 31, 1987 was $1,245,000 ($664,000 in 1986, and $159,000 in 1985).

At January 31, 1987, the Company had a $10,000,000 unsecured bank revolving line of credit expiring May 31, 1987, with interest at the prime rate. No amounts were borrowed at January 31, 1987.

NOTE 4 COMMON STOCK

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 February 1987, the Company authorized a three-for-one split of the common stock effective in March 1987. All share amounts in the financial statements and notes thereto have been adjusted to reflect the stock splits.

During fiscal 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.

In fiscal year 1986, the Company and certain shareholders made an initial public offering of 4,200,000 shares of common stock. The Company sold 3,630,000 shares in the offering. Total proceeds from these sales amounted to $12,027,776, net of issuance costs.

In 1982, Autodesk sold, to certain founders, warrants to purchase 4,545,000 shares of Autodesk common stock at an exercise price of $0.02 per share. The purchase price of these warrants was $0.000223. These warrants were exercised during fiscal 1985.

In May 1984, the Company issued for $13.00, warrants to purchase 57,750 shares of Autodesk common stock at an exercise price of $0.17 per share. These warrants were exercised during fiscal 1986.

The Company has granted an option as part of a royalty agreement which entitles the licensor to obtain up to 144,000 shares of the Company's common stock either in exchange for prospective royalties or after cessation of the royalty payments. A total of 43,200 shares were exercised during fiscal 1987.

STOCK OPTION PLANS NOTE 5

In April 1982, Autodesk adopted an Employee Incentive Stock Option Plan which was subsequently terminated on November 9, 1983. Under the plan, options were granted at an exercise price (equal to at least 100% of fair market value of the stock) as determined by the Board of Directors. Prior to plan termination, the Company had granted options to purchase 7,245,000 shares of common stock.

In December 1984, Autodesk adopted the 1984 Employee Incentive Stock Option Plan. Under the plan, incentive stock options may be granted to employees to purchase a maximum of 4,050,000 shares at an exercise price (equal to at least 100% of fair market value of the stock) as determined by the Board of Directors.

Changes in options outstanding during the fiscal years ending January 31, 1987, 1986 and 1985 are as follows:

	Number of shares	Per share	Total
Options outstanding at January 31, 1984	4,712,265	$0.02–$0.07	$ 190,717
Granted	2,123,325	$0.17	353,888
Exercised	2,414,514	$0.02–$0.07	72,277
Cancelled	45,000	$0.17	7,500
Options outstanding at January 31, 1985	4,376,076	$0.02–$0.17	464,828
Granted	545,625	$0.17–$7.42	1,571,512
Exercised	3,998,157	$0.02–$0.33	413,246
Cancelled	37,485	$0.02–$2.00	7,418
Options outstanding at January 31, 1986	886,059	$0.17–$7.42	1,615,676
Granted	188,559	$7.92–$11.38	1,865,493
Exercised	384,000	$0.17–$7.42	470,575
Cancelled	34,740	$0.17–$11.38	263,702
Options outstanding at January 31, 1987	655,878	$0.17–$11.38	$2,746,892
Options exercisable at January 31, 1987	543,459		$1,559,063
Options available for grant at January 31, 1987	1,286,400		

NOTE 6 PREFERRED STOCK

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.

NOTE 7 ROYALTIES

The Company licenses certain software that it utilized to develop the basic AutoCAD package pursuant to which it pays royalties to the developer who is a shareholder. In fiscal 1986, the Company introduced two new packages, AutoCAD AEC and CAD/camera, which it also licenses, and pays royalties to each of the developers. The royalties are payable at 8.4% to 24% of gross revenues from sales of the basic packages, which excludes separately priced enhancements developed by the Company. Royalty expense was $851,423 in fiscal 1987, $1,026,335 in 1986 and $619,723 in fiscal 1985. Such costs are included as a component of cost of revenues.

In September 1984, under a royalty agreement, the Company acquired the exclusive rights to the CAD/camera software package. As part of the royalty agreement, the Company granted an option which entitles the licensor to obtain shares of the Company's common stock in exchange for prospective royalties (Note 4). Royalties are payable at 8.4% (12% in fiscal 1986) of gross sales from CAD/camera until $700,000 ($1,000,000 in fiscal 1986) in royalties is paid. Thereafter, royalties are paid at 4.2% (6% in fiscal 1986) until an additional $700,000 ($1,000,000 in fiscal 1986) in royalties is paid, at which time royalty payments cease. Royalty expense was $20,964 and $47,000 on sales of $218,000 and $392,000 in fiscal 1987 and 1986, respectively. Prior to this, no sales or payments had been made.

NOTE 8 QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial information for fiscal years 1987 and 1986 are as follows (000's, except per share data):

	1st quarter	2nd quarter	3rd quarter	4th quarter	Total year
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 (Note 4)	.12	.13	.14	.16	.55
1986					
Revenues	$5,066	$6,761	$7,709	$9,995	$29,531
Gross profit	4,247	5,679	6,393	8,630	24,949
Net income	1,114	1,437	1,766	2,204	6,521
Net income per share (Note 4)	.06	.08	.09	.11	.34

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, 1987, 1986 and 1985 and for the years then ended are as follows:

(in thousands)	United States	Western Europe	Japan	Consolidation eliminations	Consolidated total
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	$18,689	$ 3,525	$ (576)	$ —	$21,638
Income 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	$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
YEAR ENDED JANUARY 31, 1985					
Revenues	$ 8,719	$ 1,155	$ —	$ —	$ 9,874
Revenues between geographic areas	31	—	—	(31)	—
Total revenues	$ 8,750	$ 1,155	$ —	$ (31)	$ 9,874
Operating income	$ 2,373	$ 444	$ —	$ —	$ 2,817
Income before taxes	$ 2,420	$ 461	$ —	$ —	$ 2,881
Identifiable assets	$ 4,232	$ 804	$ —	$ (137)	$ 4,899

Information with respect to Western Europe and Japan represents the operations of the Company's foreign subsidiaries. Included in sales from the United States are $3,963,000 ($2,241,000 in 1986, $783,000 in 1985) to unaffiliated customers outside the United States.

At January 31, 1987, 1986 and 1985 total foreign net equity was $3,709,000, $1,362,000 and $379,000 respectively.

RESULTS OF OPERATIONS

NET REVENUES

The Company's net revenues again increased significantly over the previous year. This increase has been due to the continued growth of the market for personal computer CAD software and AutoCAD's evolving as the standard in that market, as well as to the increased recognition of AutoCAD in the 32-bit machine market.

Fiscal 1987 net revenues increased approximately 77% over fiscal 1986, which had increased approximately 200% from fiscal 1985. Sales of AutoCAD accounted for approximately 96% of net revenues in fiscal 1987, 91% in fiscal 1986, and substantially all of net revenues in fiscal 1985. The Company's subsidiaries in Western Europe and Japan have continued to expand. Those subsidiaries achieved a growth rate in net revenues of 148% over fiscal 1986, which had increased approximately 461% from fiscal 1985. Foreign sales, including sales from the United States to unaffiliated foreign customers, accounted for approximately 38%, 30%, and 20% of net revenues in fiscal 1987, fiscal 1986, and fiscal 1985, respectively. See Note 9 of Notes to Consolidated Financial Statements.

The Company sells its products domestically primarily to dealers, which accounted for approximately 58%, 60%, and 55% of net revenues in fiscal years 1987, 1986, and 1985, respectively, and to computer manufacturers, which accounted for approximately 4%, 9%, and 22% of net revenues for those same periods. The Company has realized higher profit margins on sales to dealers, who typically purchase smaller product quantities at lower discounts.

COST OF REVENUES

Cost of revenues includes royalty payments, production of technical manuals and associated materials, blank disks, and the cost of transferring the software programs onto these disks. Cost of revenues, as a percentage of net revenues, has remained relatively constant at approximately 15% of net revenues during the last three fiscal years. Autodesk continues to benefit from certain economies of scale associated with higher sales volumes and reduced royalty payments resulting from both increased sales of AutoCAD extension packages which bear no royalty cost and the restructuring of the base package pricing. These savings are offset by the cost of offering more native language versions of AutoCAD in Europe and Japan, which are produced and sold in lesser quantities and bear the additional cost of the protection device included in all packages sold outside of North America.

MARKETING AND SALES

Marketing and sales expenses increased by approximately $5,000,000 from fiscal 1986 to fiscal 1987, and remained relatively constant as a percentage of net revenues at approximately 25% for the last two fiscal years compared to 29% for fiscal 1985. The Company has continued to develop distribution channels in Western Europe and Japan by increasing staffing at the respective subsidiaries to provide better dealer support and by increasing product promotions worldwide.

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 by $1,700,000 in fiscal 1987, and remained at approximately 6% as a percentage of net revenues for both fiscal 1987 and fiscal 1986, and decreased from 13% in fiscal 1985. In fiscal 1987, the Company began capitalizing certain

software development costs in accordance with FASB Statement of Financial Accounting Standards no. 86. See Note 1 of Notes to Consolidated Financial Statements. Had these costs been expensed in fiscal 1987, research and development would have been 7% of net revenues. The Company intends to continue to recruit and hire experienced software developers, while at the same time selectively acquiring complementary software technology and products.

GENERAL AND ADMINISTRATIVE

General and administrative expenses include the finance, accounting, purchasing, facilities, and administrative operations of the Company. These costs have remained relatively constant as a percentage of net revenues: 14% in fiscal 1985, 12% in fiscal 1986, and 13% in fiscal 1987. These expenses increased by approximately $3,500,000 in fiscal 1987 from fiscal 1986, primarily due to significant expansion of Western European and Japanese operations, increased staffing, and the purchase of capital equipment and leasehold improvements in the United States.

NET INCOME

Net income increased approximately 78% from fiscal 1986 to fiscal 1987, and approximately 300% from fiscal 1985 to fiscal 1986. Net income per share was $.55, $.34, and $.10 for the same three periods, respectively. The continued growth of the Company's net income continues to be favorably affected by increased unit sales volume and by the addition of separately priced extensions to AutoCAD. The Company has not experienced any significant effects from inflation in recent years.

QUARTERLY RESULTS

The Company's results of operation 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 1986 and fiscal 1987. 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 foreign operations, fluctuations of the U.S. dollar against foreign currencies could impact results of operation in a particular quarter. Further, increased competition in the CAD market could result in pricing pressures.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary source of liquidity is cash flow from operations. Cash equivalents and marketable securities, and working capital balances were $24,301,000 and $29,917,000, respectively, at January 31, 1987. 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, 1987. The Company's principal commitments at January 31, 1987 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 continued growth, and the possible future acquisition of software products or technologies complementary to the Company's business. The Company believes that its existing cash equivalents and marketable securities, cash generated from operations, and available borrowings under its line of credit are sufficient to satisfy its current cash requirements. However, the Company may consider the issuance of additional debt or equity securities to finance its growth.

OFFICERS

John Walker
Chairman of the Board

Alvar Green
President, Chief Executive Officer,
Chief Financial Officer

Daniel Drake
Executive Vice President, Secretary

Keith Marcelius
Vice President–Research & Development

Richard Handyside
Vice President–European Operations

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, Secretary
Autodesk, Inc.

Gregory Lutz
Programmer and Systems Analyst
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INDEPENDENT ACCOUNTANTS

Arthur Young & Company
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San Francisco, CA 94104

PER SHARE STOCK DATA AND DIVIDEND POLICY–FISCAL YEAR

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
1986*			
First Quarter	N/A	N/A	N/A
†Second Quarter	5¼	4	5,403,198
Third Quarter	5½	4	5,277,324
Fourth Quarter	8¾	4¾	7,697,391

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. Prices prior to March 1986 represent inter-dealer quotations without adjustment for retail markups, markdowns, or commissions, and do not necessarily represent actual transactions. As of April 6, 1987, the approximate number of shareholders of record of Common Stock was 560.

The Company has not paid any cash dividends. The Board of Directors does not anticipate paying cash dividends in the forseeable 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 5, 1987, 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 1987 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.

†Beginning June 28, 1985, the date of the Company's initial public offering.

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