



AUTODESK, INC.

Annual Report

For The

Year Ended

January 31, 1986

COMPANY PROFILE

Autodesk, Inc., designs, develops, markets, and supports computer-aided design and drafting (CAD) software for use on leading desktop computers. The Company's market includes engineers, architects, facilities planners, and designers.

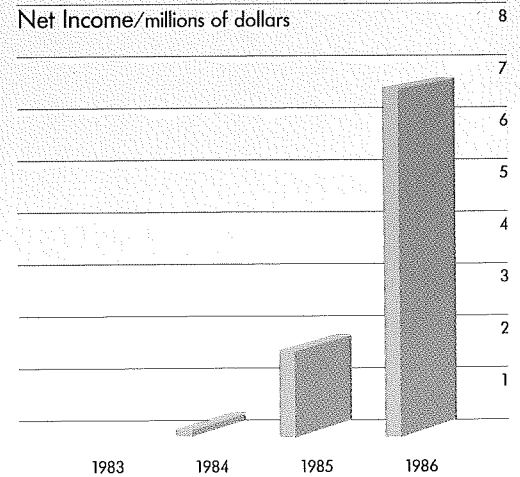
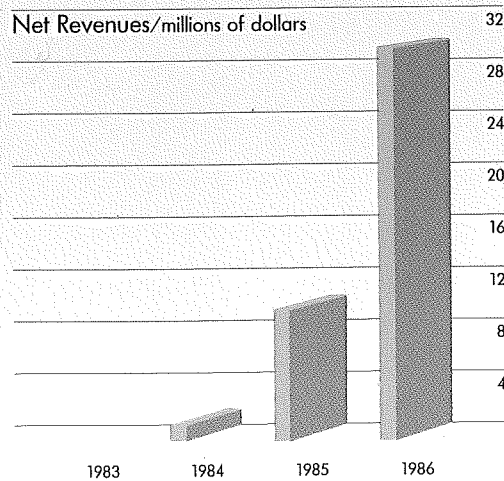
Autodesk currently markets three software packages:

AutoCAD® is a general-purpose design and drafting software package that runs on most 16-bit desktop computers. At fiscal year end, there were more than 40,000 installations worldwide.

AutoCAD AEC® is a productivity tool for the design professional in the architecture, engineering, or construction (AEC) markets.

CAD/camera™ is an automatic scanning and vectorization software package that scans drawings and converts them to vectorized lines readable by AutoCAD.

Sales for the fiscal year of 1986 were \$29,530,000—triple those of the preceding year.



SHAREHOLDER INFORMATION

PER SHARE STOCK DATA AND DIVIDEND POLICY-FISCAL YEAR 1986

	Bid Prices		Trading Volume
	High	Low	
First Quarter	N/A	N/A	N/A
*Second Quarter	15½	11¾	1,801,066
Third Quarter	16¾	12¼	1,759,108
Fourth Quarter	26½	14½	2,565,797

The Company's Common Stock is traded over the counter on the NASDAQ National Market System using the symbol "ACAD."

The above table shows the range of bid prices for a share of Common Stock during the Company's fiscal quarters indicated, as furnished by NASDAQ. The quotations represent inter-dealer quotations without adjustment for retail markups, markdowns or commissions, and do not necessarily represent actual transactions. As of April 7, 1986, the approximate number of shareholders of record of Common Stock was 440.

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 2:00 P.M. on May 30, 1986, 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 1986 filed with the Securities and Exchange Commission may be obtained without charge by a written request to the Company's Secretary at 2320 Marinship Way, Sausalito, CA 94965.

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

IBM RT PC is a trademark of International Business Machines

MS™-DOS is a trademark of Microsoft Corporation

Ultracam™ is a registered trademark of Ultracam Incorporated

SUN™ is a registered trademark of SUN Microsystems Incorporated

Apollo™ is a registered trademark of Apollo Computer Incorporated

DEC MicroVAX II™ is a trademark of Digital Equipment Corporation

SELECTED FINANCIAL DATA

Fiscal year	1986	1985	1984	1983
	(000's, except for per share data)			
Net revenues	\$29,531	\$9,874	\$1,189	\$15
Gross profit	\$24,949	\$8,360	\$961	\$9
Operating expenses	\$12,556	\$5,542	\$841	\$20
Provision for income taxes	\$6,490	\$1,255	\$12	—
Net income	\$6,521	\$1,626	\$113	\$(9)
Common and common equivalent shares	6,330	5,500	5,300	4,850
Per share data				
Net income	\$1.03	\$0.30	\$0.02	—
Book value	\$3.15	\$0.48	\$0.11	\$0.04
Total assets	\$24,683	\$4,899	\$543	\$64
Debt	—	—	—	—
Shareholders' equity	\$21,171	\$2,004	\$199	\$60



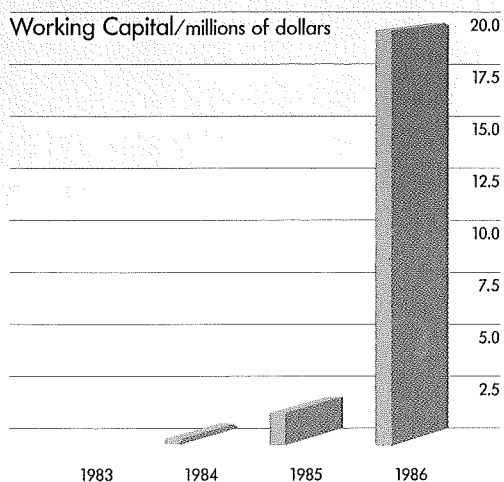
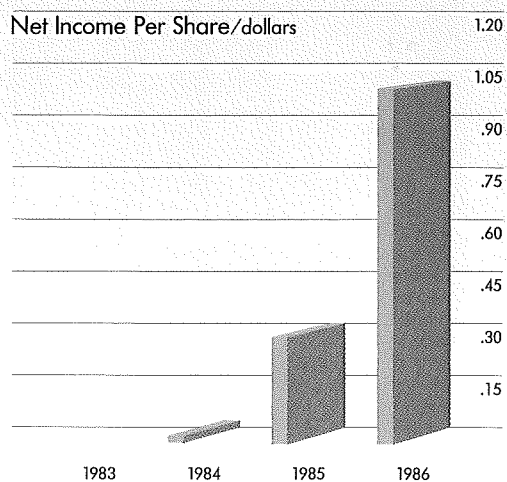
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Annual Report

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Year Ended

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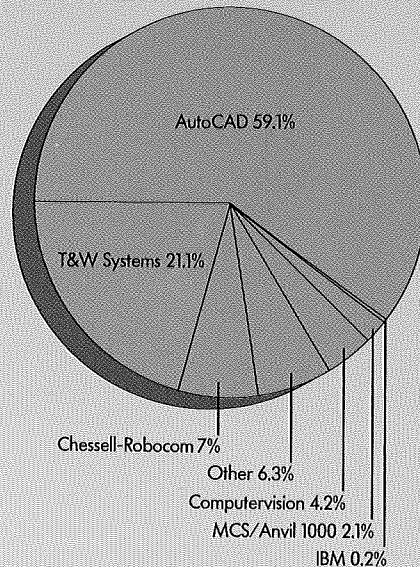
Most designs in the fields of engineering, architecture, and manufacturing are expressed as drawings. During the past decade, the use of computers to automate these design and drafting tasks has become well established. As industrial needs changed, speed and heightened productivity became increasingly more desirable; CAD provided both.

Elements of CAD – graphics displays, digital pen plotters, light pens, and digitizers – were first developed in the 1950s and '60s, while actual mainframe CAD systems were developed in the mid-'60s. In less than a decade, CAD systems comprised of specialized applications software bundled with mainframe or minicomputer hardware were available as ready-to-use turnkey systems that supported multiple users in a timesharing environment. Prices for such systems were, on average, more than \$100,000, and considerable technical sophistication was required to operate them. In addition to their expense and complexity, the proprietary nature of turnkey systems made it difficult to adapt them for use with software and hardware supplied by third-party developers.

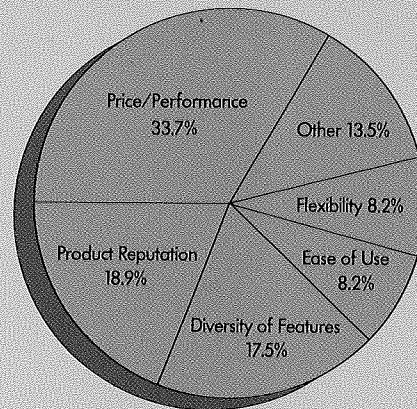
Personal computers with sufficient power to run a complex CAD program have become available only within the last few years, as have plotters, color display monitors, and digitizers that were both affordable and easy to use. With the price of a desktop workstation now at approximately \$10,000, demand for such systems—and for a sophisticated CAD program to run on them—is rising. Given the high volume of that demand, such CAD programs can be offered for a reasonable price.

Autodesk's strategy in the development of AutoCAD has been to harness the potential of personal computers and workstations for CAD via low-cost, easy-to-use CAD software running on a wide variety of 16-bit computers supporting the MS™ DOS operating system. By providing most of the drafting capabilities previously available only with expensive mainframe and minicomputer CAD systems, AutoCAD effectively brings the power of high-performance CAD to a personal computer workstation.

Unit Market Share of PC CAD in 1985



Reasons for Selecting AutoCAD



Source: L. F. Rothchild, Unterberg, Towbin January 1986

Source: Martin Simpson & Co. Survey
Quoted in *The Anderson Report*, ©1986

It comes as no surprise that Autodesk, Inc. is one of the most talked about CAD/CAM/CAE software firms in the industry. Though barely four years old, the Sausalito, CA maker of the popular AutoCAD made marketing history this year when it surpassed both Intergraph and Computervision in market share."

Inside The Best High-Tech Marketing Programs"
Awards Article
High-Tech Marketing Magazine
December 1985



Autodesk, Inc. experienced major growth and development during fiscal year 1986. We exceeded our revenue goals and achieved our third consecutive year of profitability.

Net revenues for fiscal year 1986 were \$29,530,000, triple those of the preceding year. Net income was \$6,520,000 for the year, an increase of 300 percent over the preceding year. In fact, our revenues and net income for the last quarter of fiscal year 1986 exceeded those of the entire fiscal year 1985.

Rising margins throughout the year, an average receivables age of 51 days, and an inventory that, on average, turned over monthly, reflect our commitment to cost control and asset management.

In less than three years, we've sold more CAD packages than any other CAD company, whether micro, mini-, or mainframe. From the original 13 founders, our company has grown to 214 employees with offices in 5 countries and monthly sales exceeding \$3 million.

Autodesk's market share in the micro-based CAD industry was, by most industry estimates, approximately 50 percent by the end of 1985. As of January 31, 1986, we'd shipped more than 40,000 fully paid and licensed packages of AutoCAD. Most of these sales were made through our worldwide network of more than 2,000 resellers, which we believe is the largest CAD sales and service force assembled to date.

NEW PRODUCTS AND ENHANCEMENTS

We entered fiscal year 1986 as a one-product company. In August of 1985 we shipped two new products, AutoCAD AEC and CAD/camera, on schedule. AutoCAD AEC customizes AutoCAD for the professional designer who works in the architecture, engineering, or construction markets (AEC), and is the first in a series of new products we plan to introduce for the AEC sector.

CAD/camera is our entry in the automatic scanning and vectorization market. CAD/camera scans drawings and converts them into vectorized lines readable by AutoCAD.

AutoCAD currently generates the most significant percentage of our revenue; its enhancement is the major focus of our software development staff. May 1985 saw the shipment of release 2.1 of AutoCAD, the sixth major update of the package since its introduction in 1982. More than 20 man-years have gone into developing AutoCAD this past year. We have announced that we will ship versions of AutoCAD configured for the IBM RT PC, the DEC MicroVAX II, and the Sun and Apollo workstations during fiscal year 1987. These versions will be appreciated by AutoCAD users whose tasks require the increased power of those workstations.

We are committed to open architecture in our software. With the integration of a version of the LISP programming language into AutoCAD, users can more easily customize AutoCAD for specific applications.

The wide variety of hardware that runs AutoCAD and the expanding volume of third-party applications packages based on AutoCAD will be on view at AutoCAD Expo, to be held in Chicago on June 24-27, 1986, in conjunction with A/E/C Systems 86, one of the largest CAD shows in the country. We invite you to attend. The Autodesk product line will be demonstrated at the Expo, and we'll be on hand to answer your questions. As you may know from past experience, Autodesk always has exciting new product announcements to make at major shows. Software companies don't typically host their own trade shows; as a market-driven company, however, we want to meet our customers, learn what enhancements they'd like to see in future versions of AutoCAD, and showcase how they've customized the product.

"With the introduction of AutoCAD, Autodesk employed smart pricing and marketing strategies that steamrolled the CAD marketplace. They became king of the PC CAD world."

*Jerry Robinson
F-M Automation
Netosletter
January 1986*

FOREIGN MARKETS

AutoCAD is currently available in English, French, German, Italian, Japanese, Spanish, and Swedish language editions. Western European sales this year accounted for 20 percent of revenues. In April 1985, we established a subsidiary in Japan. Our subsidiaries in Switzerland, Sweden, and the United Kingdom continued to grow, and we signed OEM agreements with IBM in both Italy and the United Kingdom, and with Olivetti in Italy.

THE FUTURE

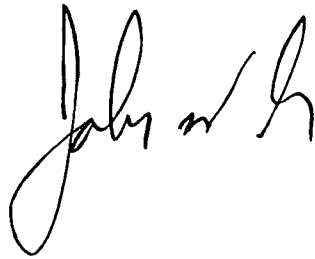
In coming months, we'll move into new markets, as well as increase our efforts in those markets we've already explored. We believe fiscal year 1987 will be the year in which desktop CAD penetrates larger corporations. Networks, which enable personal computer users to easily exchange data, will finally begin to have a major impact on how people work, a fact that will create new product opportunities. Our entry into the 32-bit workstation arena will make AutoCAD available to people at all points on the hardware price-performance curve.

We didn't create the standard for CAD by accident. We've gotten where we are today through unrelenting hard work, an obsession with product quality, prudent financial management, commitment to customer service, marketing efforts that have consistently outflanked the competition, and ongoing technical innovation. We're not about to stop now.

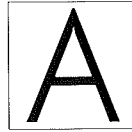
Although software companies typically view their products as having an inherently limited life span, many of the mainframe packages in use today date back 20 years. We believe that AutoCAD, a growing and evolving product, will be as enduring. As AutoCAD continues to expand its customer and application base, our ability to sell new products and updates to that base expands as well.

Desktop CAD is no longer viewed as a sideshow of the "real" CAD market; rather it is, as we've always believed, the main event. We anticipate that the overwhelming percentage of new CAD users will be buying PC-based CAD—and those potential users outnumber the current installed base of CAD users by at least ten to one. Many students today who learn CAD are learning AutoCAD. The general-purpose PC workstation—running such wide-ranging applications as word processing, database and spreadsheet programs, communications, analysis, and CAD—is generally acknowledged as the direction of the industry as a whole. We believe our product line will be an essential component of those workstations.

We value your trust and the confidence you've expressed in us by your ownership of Autodesk. Our goal now is to continue on our upward trajectory.

A handwritten signature in black ink, appearing to read "John Walker". The signature is fluid and cursive, with the first name "John" being larger and more prominent than the last name "Walker".

John Walker
*President and
Chief Executive Officer*



Autodesk, Inc., designs, develops, markets, and supports computer-aided design and drafting (CAD) software for use on leading desktop computers. Founded in 1982, Autodesk recognized the market demand for an affordable CAD system. The Company's principal product, AutoCAD, is the most widely used general-purpose CAD program worldwide, with more than 40,000 installations as of January 31, 1986.

CAD has been available since the late 1960s in packages for mainframes and minicomputers. Because such systems cost, on average, more than \$100,000, access to CAD was limited for many potential users, even in large corporations.

Autodesk was one of the first software companies to foresee the impact the 16-bit computer would have on CAD. Just as the personal computer had revolutionized word processing and financial and database management systems, so it would soon revolutionize CAD.

Rather than focus on one product alone, Autodesk began development of five products (among them a desktop organizer program called Autodesk, which gave rise to the company name). AutoCAD, a micro-based software package for designers and drafters, made its debut in 1982 at Comdex, the world's largest computer reseller show. An enthusiastic response encouraged Autodesk to channel its resources into developing and marketing AutoCAD.

Desktop CAD became a reality with the advent of affordable CAD software running on low-cost personal computers. For a fraction of the cost of mainframe CAD, a drafter could enjoy up to 80 percent of the larger system's benefits. Drafting tables and T-squares, like slide rules and typewriters, were fast becoming artifacts of the past.

Since its introduction in 1982, AutoCAD has been significantly enhanced in six comprehensive updates. Many enhancements were in response to suggestions from AutoCAD users. An enhancement in May of 1985 offered three-dimensional facilities. The most recent enhancement, in December of 1985, featured the integration of AutoLISP™, a version of the LISP programming language. With AutoLISP, independent developers can now customize AutoCAD for their specific applications with greater facility.

Many AutoCAD users tailor AutoCAD to meet the needs of their particular applications; their customizations are now available to other AutoCAD users. The AutoCAD Applications Catalog lists more than 150 packages for applications as varied as structural analysis, bill of material extraction and job costing, pipe stress, architectural design, numerical controlled machine

"Autodesk, Inc. dominates the independent dealer channel for microcomputer CAD software thus representing a major economic franchise."

*William H. Shattuck
Montgomery Securities
December 1985*

programming, municipal mapping, surveying, printed circuit autorouting, theatrical lighting design, and even football play diagramming. The next edition of the Applications Catalog, slated for publication in the summer of 1986, will contain more than 240 entries.

For AutoCAD users whose work requires more power than is currently available with personal computers, Autodesk has configured versions of AutoCAD for the IBM RT PC, the DEC MicroVAX II, and the Sun and Apollo workstations. Versions for the latter two have already been demonstrated at computer shows; we have announced that all four versions will be shipped during fiscal year 1987.

NEW PRODUCTS

To further serve the needs of the design and drafting market, Autodesk now markets two new products: CAD/camera, a scanning package that converts paper drawings to AutoCAD using expert system technology, and AutoCAD AEC, a program that customizes AutoCAD for use in an architectural/engineering/construction environment. Additional products are currently in development.

EDUCATION

More than 1,500 universities, colleges, vocational and technical schools, and high schools across the nation now teach AutoCAD to their design and drafting students. From the University of California at Berkeley, College of Environmental Design to the M.I.T. School of Architecture, students are learning CAD with AutoCAD. Our 46 Authorized Training Centers, at independent organizations nationwide, provide day, night, and weekend training in AutoCAD.

EMPLOYEES

Autodesk currently has 214 employees. Company headquarters are in Sausalito, California, across the bay from San Francisco. Subsidiary offices are located in Basel, Switzerland; Molndal, Sweden; London, England; and Tokyo, Japan.

AUTOCAD®

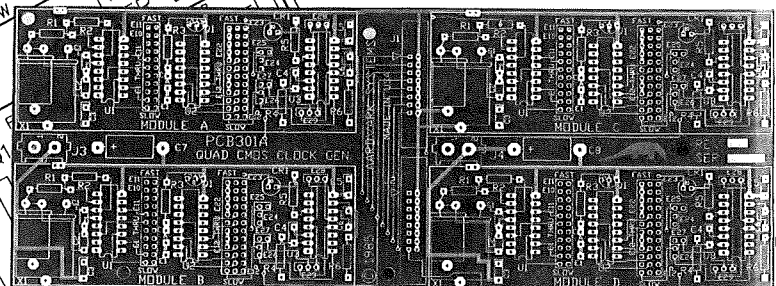
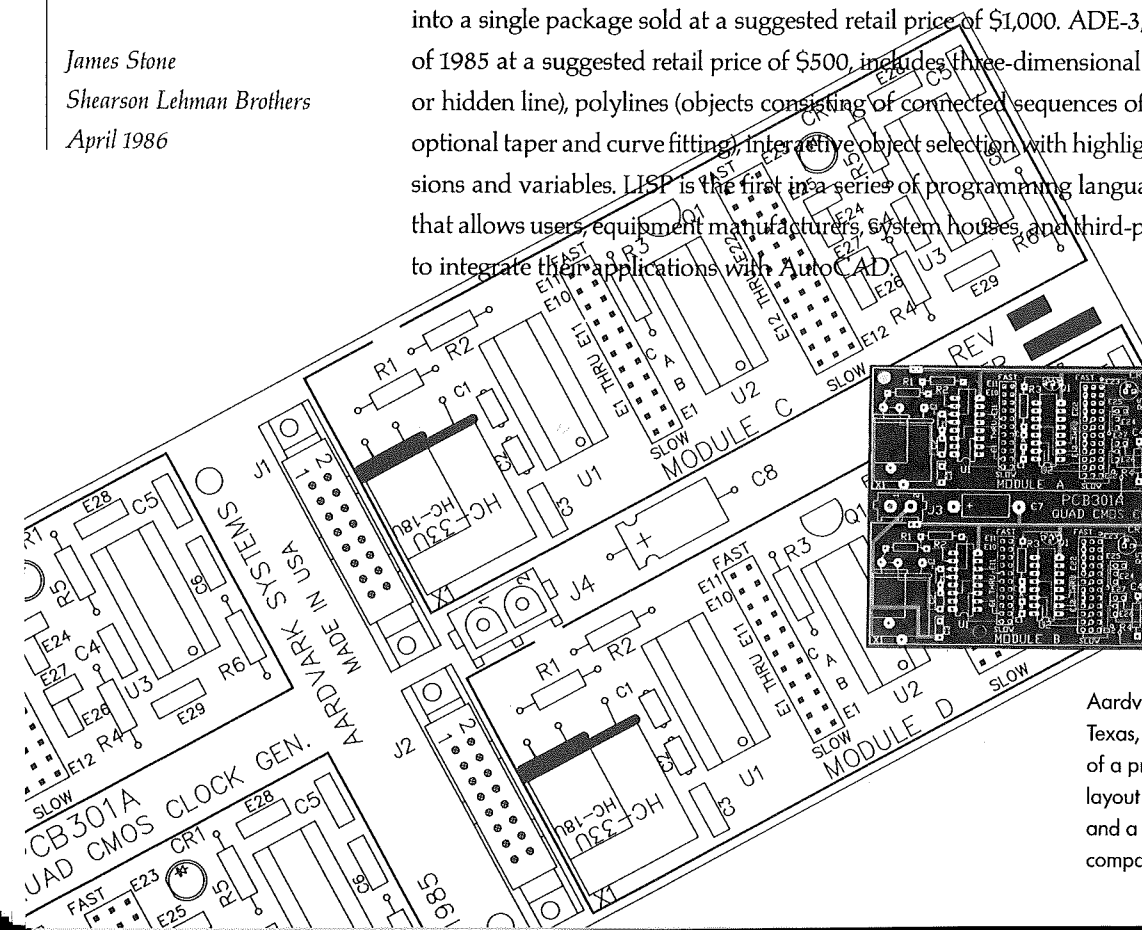
AutoCAD is a general-purpose design and drafting software package that runs on most 16-bit desktop computers. Drawings of any size can be created and edited interactively by using a digitizer or mouse to point to menu items and move the drawing cursor around the screen. The basic AutoCAD drawing elements are lines, arcs, circles, filled polygons, text, and insertions of other drawings. Editing operations include deleting, moving, copying, repeating, and mirroring selected sections of a drawing. Drawings can be plotted to any scale and readily used as components of other drawings.

Since the introduction of AutoCAD in November of 1982, the basic package has been substantially enhanced through a series of six releases. These releases have added new capabilities and features, such as increased drawing speed, interactive menus, support for dot matrix and laser printers, interfaces to certain technical publishing systems, user-definable text styles, and features that facilitate presentations based on AutoCAD drawings. As of January 31, 1986, the basic AutoCAD package sold for a suggested retail price of \$1,000.

Autodesk has introduced three extension packages that have expanded and upgraded the basic features of AutoCAD; Advanced Drafting Extensions (ADE™) 1, 2, and 3. ADE-1, introduced in November of 1983, includes semiautomatic dimensioning, filleting, cross-hatching, freehand drawing, and object breaking. ADE-2, introduced in October of 1984, includes attributes (which allow association of database information with drawing objects), object snap (which permits geometric constructions based on objects in the drawings), automated construction of isometric drawings, and dynamic object dragging. In May of 1985, ADE-1 and ADE-2 were combined into a single package sold at a suggested retail price of \$1,000. ADE-3, first shipped in May of 1985 at a suggested retail price of \$500, includes three-dimensional visualization (wireframe or hidden line), polylines (objects consisting of connected sequences of lines and arcs with optional taper and curve fitting), interactive object selection with highlighting, and LISP expressions and variables. LISP is the first in a series of programming languages for AutoCAD that allows users, equipment manufacturers, system houses, and third-party software developers to integrate their applications with AutoCAD.

"The company shipped its first product three years ago and has since achieved market penetration that borders on the remarkable. It will be very difficult, if not impossible, for a competitor to break this market hold."

James Stone
Shearson Lehman Brothers
April 1986



Aardvark Systems of Dallas, Texas, designed this section of a printed circuit board layout with AutoCAD and a parts library the company developed.

CAD/CAMERA™

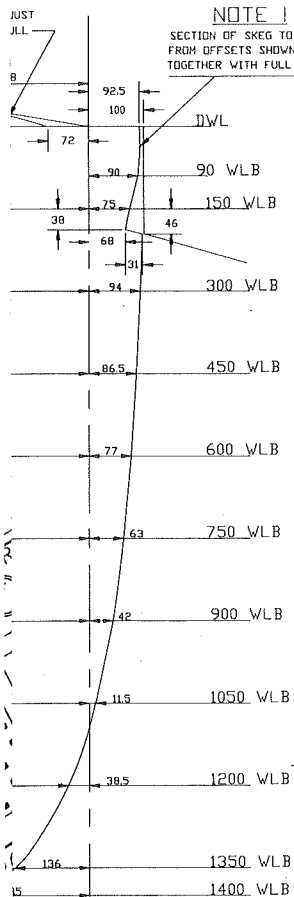
CAD/camera enables users to transfer paper drawings automatically to CAD databases. Historically, users with existing paper drawings have had to enter them manually into their CAD systems, essentially redrawing them on the CAD system. In addition, upon installing a CAD system a user typically also had to spend considerable time entering commonly used symbols and drawing details. With CAD/camera, both steps are bypassed.

CAD/camera translates an image scanned with an electronic camera to the vector form usable with CAD systems. Existing systems that perform this function are bundled with minicomputers and generally cost more than \$100,000. CAD/camera, with a suggested retail price of \$3,000, runs on personal computers, together with an electronic scanning camera that typically costs from \$4,000 to \$12,000.

While databases created by CAD/camera can be directly read by AutoCAD, CAD/camera may be used to generate databases for any CAD system. Its output format is fully documented by Autodesk, facilitating CAD/camera's interfacing with other systems. In addition, CAD/camera is written in the C programming language, giving Autodesk the option to port it to other computer systems, including other CAD systems.

CAD/camera began shipments in the third quarter of fiscal year 1986.

UPPER SKIN LAMINATE TO
B/C/D 180° 18 oz ROVING



NOTE !

SECTION OF SKEG TO BE FAIRED FROM OFFSETS SHOWN HERE TOGETHER WITH FULL SIZED LOFTING.

This twelve-meter racing sailboat, soon to be skippered in the 1987 America's Cup yachting competition, was designed on AutoCAD by naval architect Gary Mull.



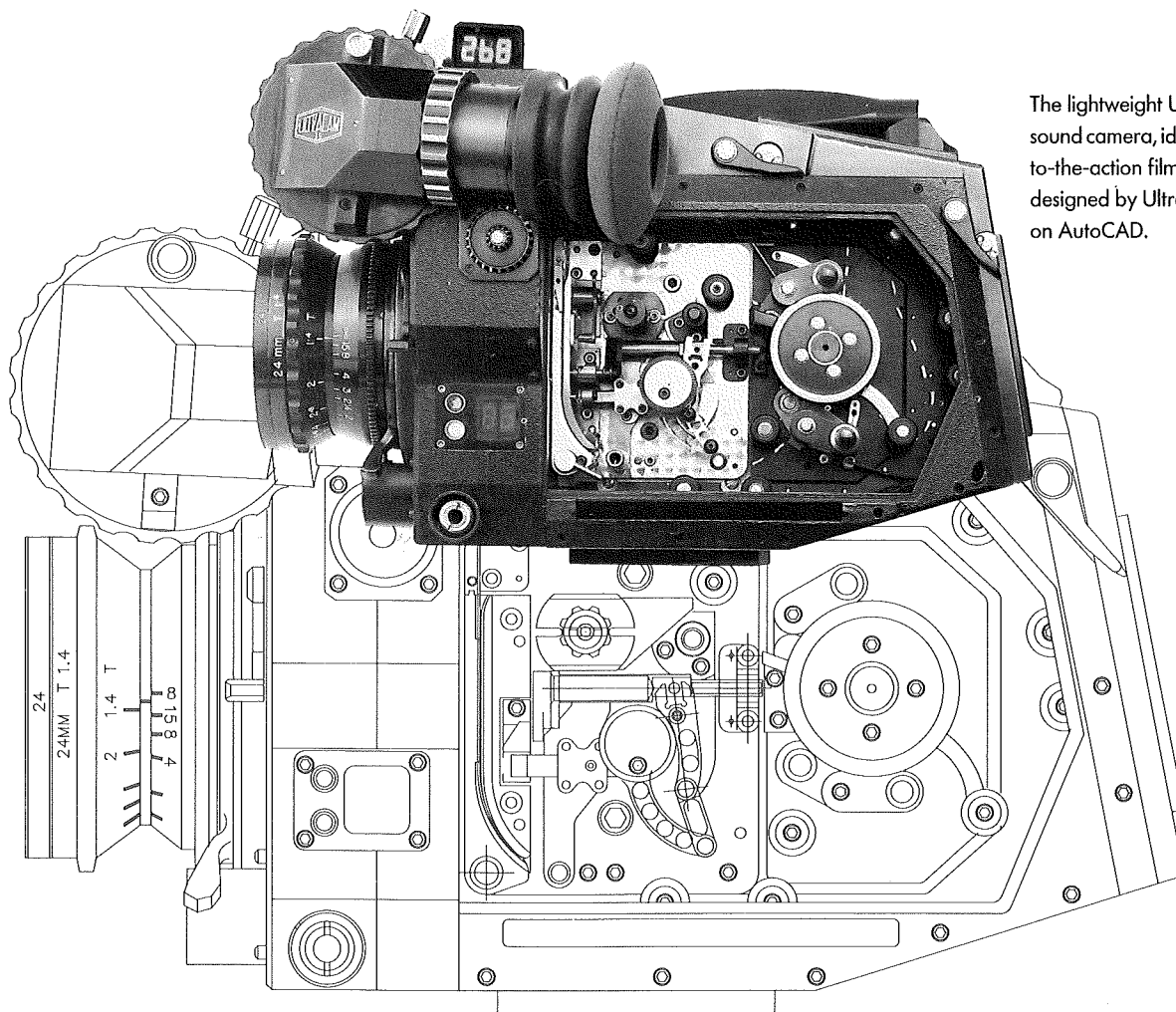
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TRANSLATORS

To facilitate the use of AutoCAD with existing mainframe and minicomputer-based CAD systems, Autodesk has worked closely with third parties to develop bi-directional graphics translators. These translators permit the exchange of data between large CAD systems and desktop machines running AutoCAD, thus providing for the off-loading of routine drafting tasks that do not require the power of the large system. Translators for certain McDonnell Douglas Automation, Inc. and Intergraph Corporation products are currently available from third parties.

THIRD-PARTY SOFTWARE

AutoCAD's open-architecture design and documentation enable users to customize it and facilitate its use by third parties as a foundation for additional specific CAD applications. Autodesk encourages the development of such third-party software through its AutoCAD Applications Program, by which independent software vendors may reach AutoCAD dealers and users. The AutoCAD Applications Catalog contains more than 150 third-party vendor products. Although Autodesk derives no direct revenue from these third-party products, the Company believes they will generate additional sales of AutoCAD.



The lightweight Ultracam™ sound camera, ideal for close-to-the-action filming, was designed by Ultracam Inc. on AutoCAD.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

12 Board of Directors and Shareholders, Autodesk, Inc.

We have examined the accompanying consolidated balance sheets of Autodesk, Inc. at January 31, 1986 and 1985, 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, 1986. 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, 1986 and 1985, and the consolidated results of operations and changes in financial position for each of the three years in the period ended January 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

San Francisco, California

February 28, 1986

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CONSOLIDATED STATEMENT OF INCOME

Years ended January 31,	1986	1985	1984
Net revenues	\$29,530,939	\$9,873,974	\$1,189,192
Costs and expenses:			
Cost of revenues (Note 7)	4,582,361	1,514,106	228,306
Marketing and sales	7,318,760	2,870,820	309,947
Research and development	1,664,837	1,249,164	206,317
General and administrative	3,572,075	1,422,419	324,986
	17,138,033	7,056,509	1,069,556
Income from operations	12,392,906	2,817,465	119,636
Interest income	605,289	46,122	4,194
Other income	12,662	17,509	1,173
Income before income taxes	13,010,857	2,881,096	125,003
Provision for income taxes (Note 2)	6,490,000	1,255,000	12,000
Net income	\$ 6,520,857	\$1,626,096	\$ 113,003
Net income per share	\$1.03	\$.30	\$.02
Shares used in computing net income per share (Note 1)	6,330,000	5,500,000	5,300,000

See accompanying notes.

CONSOLIDATED BALANCE SHEET

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January 31, 1986 and 1985	1986	1985
Assets		
Current assets:		
Cash and certificates of deposit of \$1,425,857 (\$1,019,161 in 1985)	\$ 3,202,338	\$1,191,948
Marketable securities, at cost which approximates market	12,947,716	—
Accounts receivable, net of allowance for doubtful accounts of \$274,195 (\$176,870 in 1985)	4,909,468	2,558,122
Inventory	657,117	216,491
Deferred taxes (Note 2)	457,000	94,605
Prepaid expenses and other current assets	667,392	126,841
Total current assets	22,841,031	4,188,007
Furniture, equipment and leasehold improvements, at cost (Note 3):		
Furniture and equipment	2,030,773	716,186
Leasehold improvements	59,094	22,170
Less accumulated depreciation	(500,105)	(101,557)
Net furniture, equipment and leasehold improvements	1,589,762	636,799
Deposits and other assets	252,696	74,555
	\$24,683,489	\$4,899,361

See accompanying notes.

January 31, 1986 and 1985	1986	1985
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 737,183	\$ 526,081
Accrued compensation	324,433	771,275
Other accrued liabilities	503,573	260,359
Income taxes payable (Note 2)	1,408,194	1,280,773
Current portion of obligations under capital leases (Note 3)	57,624	—
Total current liabilities	3,031,007	2,838,488
Obligations under capital leases (Note 3)	162,174	—
Other noncurrent liabilities	200,003	—
Deferred income taxes (Note 2)	119,642	56,656
Commitments (Note 3)		
Shareholders' equity (Notes 2, 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, 6,716,052 shares issued and outstanding (4,154,083 in 1985)	12,747,247	296,583
Retained earnings	8,250,491	1,729,634
Notes receivable for purchase of common stock	—	(22,000)
Foreign currency translation adjustment	172,925	—
Total shareholders' equity	21,170,663	2,004,217
	\$24,683,489	\$4,899,361

See accompanying notes.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

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Three year period ended January 31, 1986	Common stock		Retained earnings (deficit)	Notes receivable for purchase of common stock	Foreign currency translation adjustment	Total shareholders' equity
	Shares	Amount				
Balance, January 31, 1983	1,590,000	\$ 107,010	\$ (9,465)	\$(38,000)	\$ -	\$ 59,545
Common shares issued upon exercise of incentive stock options (Note 5)	244,245	16,283				16,283
Reductions in notes receivable				10,000		10,000
Net income			113,003			113,003
Balance, January 31, 1984	1,834,245	123,293	103,538	(28,000)	-	198,831
Common shares issued upon exercise of incentive stock options and warrants (Notes 4 and 5)	2,319,838	173,290				173,290
Reductions in notes receivable				6,000		6,000
Net income			1,626,096			1,626,096
Balance, January 31, 1985	4,154,083	296,583	1,729,634	(22,000)	-	2,004,217
Common shares issued, net of issuance costs of \$314,225 (Note 4)	1,210,000	12,027,776				12,027,776
Common shares issued upon exercise of incentive stock options (Note 5)	1,332,719	413,264				413,264
Common shares issued upon exercise of warrants (Note 4)	19,250	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	6,716,052	\$12,747,247	\$8,250,491	\$ -	\$172,925	\$21,170,663

See accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

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Years ended January 31,	1986	1985	1984
Sources of working capital			
Operations:			
Net income	\$ 6,520,857	\$ 1,626,096	\$ 113,003
Charges against income not affecting working capital during the year:			
Depreciation and amortization	398,548	86,882	13,966
Deferred income taxes	62,986	56,656	—
Working capital provided from operations	6,982,391	1,769,634	126,969
Reductions in notes receivable	22,000	6,000	12,000
Proceeds from issuance of common shares and warrants, net of issuance costs	12,450,664	173,290	16,283
Foreign currency translation adjustment	172,925	—	—
Increase in other noncurrent liabilities	200,003	—	—
Increase in obligations under capital leases	162,174	—	—
	19,990,157	1,948,924	155,252
Uses of working capital			
Additions to furniture, equipment and leasehold improvements	1,351,511	585,490	126,825
Addition to notes receivable	—	—	2,000
Additions to deposits and other assets	178,141	71,893	1,999
	1,529,652	657,383	130,824
Increase in working capital	\$18,460,505	\$ 1,291,541	\$ 24,428
Increases (decreases) in the elements of working capital			
Cash and certificates of deposit	\$ 2,010,390	\$ 1,120,817	\$ 38,306
Marketable securities	12,947,716	—	—
Accounts receivable	2,351,346	2,293,551	261,375
Inventory	440,626	168,347	48,144
Prepaid taxes	362,395	94,605	—
Prepaid expenses and other current assets	540,551	108,191	18,650
Accounts payable	(211,102)	(418,400)	(106,692)
Accrued compensation	446,842	(664,790)	(106,485)
Other accrued liabilities	(243,214)	(141,307)	(117,570)
Income taxes payable	(127,421)	(1,269,473)	(11,300)
Current portion of obligations under capital leases	(57,624)	—	—
Increase in working capital	\$18,460,505	\$ 1,291,541	\$ 24,428

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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N O T E S

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 to U.S. dollars at the rate 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.

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 \$76,235 in fiscal 1984 and is included in net revenues.

Inventory

Inventory consists of disks 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.

Research and Development

Costs related to research and development of software products are expensed as incurred. In August 1985, the Financial Accounting Standards Board issued a statement which will require the capitalization of certain software product development costs beginning in the fiscal year which ends January 31, 1987. The Company has not determined the effect on earnings if such costs had been capitalized in fiscal year 1986.

Investment Tax Credit

The investment tax credits are 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. 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.

Reclassifications

Certain reclassifications have been made to the fiscal 1985 and 1984 financial statements in order to conform with the fiscal 1986 presentation.

N O T E T W O

Income Taxes

The provision for income taxes consists of the following:

	1986	1985	1984
Federal			
Current	\$5,225,000	\$ 917,000	\$ -
Deferred	(430,000)	(74,000)	-
State			
Current	1,176,000	232,000	12,000
Deferred	(19,000)	1,000	-
Foreign			
Current	389,000	144,000	-
Deferred	149,000	35,000	-
	<u>\$6,490,000</u>	<u>\$1,255,000</u>	<u>\$12,000</u>

Provision for deferred income taxes reflects timing differences in the recognition of 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:

	1986	1985	1984
Income tax provision at statutory rate	\$5,985,000	\$1,325,000	\$58,000
Tax effect of foreign subsidiaries' earnings	96,000	(33,000)	-
Investment and research and development tax credits	(158,000)	(163,000)	(33,000)
State income taxes, net of federal tax benefit	625,000	126,000	7,000
Tax exempt interest	(75,000)	-	-
Other	17,000	-	(20,000)
	<u>\$6,490,000</u>	<u>\$1,255,000</u>	<u>\$12,000</u>

No provision has been made for federal income taxes on the earnings of the foreign subsidiaries (\$705,000) 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.

As indicated above, the Company has provided federal income taxes at regular corporate rates. The Internal Revenue Service (IRS) has taken the position in a private letter ruling that certain license and maintenance fees from the marketing of a computer program would constitute royalties, which would be "personal holding company income" under Section 543 of the Internal

Revenue Code. The operations of the Company are substantially different from those of the corporation involved in the private letter ruling, and the Company believes that the income from the marketing of the AutoCAD program would most likely not constitute a license of intangible property generating royalties. As a result of the public offering of the Company's securities in June 1985, the Company cannot be classified as a "personal holding company" for the fiscal year ended January 31, 1986 and thereafter, regardless of the merits of the IRS position. There remains a possibility, however, that for fiscal years ended before January 31, 1986, the IRS might attempt to classify the Company as a "personal holding company," but the Company has not provided for any "personal holding company" tax. Even if the IRS were successful in such an effort, there would be no additional income tax liability to the Company if the Company declares and pays a "deficiency dividend" to its then shareholders of record. The amount of the dividend that would be required is approximately \$1,600,000, the maximum amount that the IRS could assert was the Company's undistributed "personal holding company" income. Any such "deficiency dividend" would be taxable to those shareholders in the year of receipt.

N O T E T H R E E

Commitments

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

At January 31, 1986, \$272,524 of office equipment capitalized under equipment leases is included in furniture and equipment, of which \$60,353 has been amortized.

At January 31, 1986, future minimum lease payments under capital leases and noncancellable operating leases are as follows:

Year ending January 31:	Capital leases	Operating leases
1987	\$109,419	\$715,000
1988	99,091	656,000
1989	73,157	679,000
1990	22,008	685,000
1991	—	406,000
Total minimum lease payments	303,675	
Less amount representing interest	83,877	
Present value of minimum lease payments	219,798	
Less current portion	57,624	
	\$162,174	

Rent expense for the year ended January 31, 1986 was \$664,481 (\$158,738 in 1985, and \$21,110 in 1984).

At January 31, 1986, the Company had a \$4,000,000 (\$750,000 in 1985) unsecured bank revolving line of credit expiring May 31, 1986, with interest at the prime rate. No amounts were borrowed at January 31, 1986, or 1985.

N O T E F O U R

Common Stock

In July 1983, the Company effected a ten-for-one split of the 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. All share amounts in the financial statements and notes thereto have been adjusted to reflect the stock splits.

Notes receivable bearing interest at 10% from shareholders were retired in fiscal year 1986.

On June 28, 1985, the Company and certain shareholders made an initial public offering of 1,400,000 shares of common stock. The Company sold 1,000,000 shares in the offering and on July 31, 1985, sold an additional 210,000 shares pursuant to the underwriter's over allotment option. Total proceeds from these sales amounted to \$12,027,776, net of \$314,225 in issuance costs.

In 1982, Autodesk sold, to certain founders, warrants to purchase 1,515,000 shares of Autodesk common stock at an exercise price of \$0.0667 per share. The purchase price of these warrants was \$0.000667. These warrants were exercised during fiscal 1985.

In May 1984, the Company issued for \$13.00, warrants to purchase 19,250 shares of Autodesk common stock at an exercise price of \$0.50 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 48,000 shares of the Company's common stock either in exchange for prospective royalties or after cessation of the royalty payments.

N O T E F I V E

Stock Option Plans

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 2,415,000 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 1,350,000 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, 1986, 1985, and 1984 are as follows:

	Number of shares	Per share	Total
Options outstanding at January 31, 1983	480,000	\$0.0667	\$ 32,000
Granted	1,335,000	\$0.0667-\$0.20	175,000
Exercised	244,245	\$0.0667	16,283
Options outstanding at January 31, 1984	1,570,755	\$0.0667-\$0.20	190,717
Granted	707,775	\$0.50	353,888
Exercised	804,838	\$0.0667-\$0.20	72,277
Cancelled	15,000	\$0.50	7,500
Options outstanding at January 31, 1985	1,458,692	\$0.0667-\$0.50	464,828
Granted	181,875	\$0.50-\$22.25	1,571,512
Exercised	1,332,719	\$0.0667-\$1.00	413,246
Cancelled	12,495	\$0.0667-\$6.00	7,418
Options outstanding at January 31, 1986	295,353	\$0.50-\$22.25	\$1,615,676
Options exercisable at January 31, 1986	154,966		\$ 219,508
Options available for grant at January 31, 1986	480,075		

 N O T E S I X

Preferred Stock

The Articles of Incorporation were amended on May 21, 1985, to authorize a new 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 constituting any series, or the designation of such series, without any further vote or action by the shareholders.

 N O T E S E V E N

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 10% to 24% of gross revenues from sales of the basic packages, which excludes separately priced enhancements developed by the Company. Royalty expense was \$1,026,335 in fiscal 1986, \$619,723 in 1985 and \$71,651 in fiscal 1984. 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. Royalties are payable at 12% of gross sales from CAD/camera until \$1,000,000 in royalties is paid. Thereafter, royalties are paid at 6 percent until an additional \$1,000,000 in royalties is paid, at which time royalty payments cease. In fiscal 1986, \$392,000 of sales and \$47,000 of royalty expenses were recorded. Prior to this, no sales or payments had been made.

 N O T E E I G H T

Quarterly Financial Information (unaudited)

Summarized quarterly financial information for fiscal years 1986 and 1985 are as follows (000's, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
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	.20	.24	.26	.32	1.03
1985					
Revenues	\$1,263	\$1,972	\$2,307	\$4,332	\$9,874
Gross profit	1,069	1,693	1,890	3,709	8,361
Net income	223	338	343	723	1,627
Net income per share	.04	.06	.06	.13	.30

N O T E N I N E

Segment Information

The Company's business consists of developing and selling

computer-aided drafting and design software, which is marketed worldwide.

Information regarding geographic areas at January 31, 1986 and 1985 and for the years then ended are as follows:

Worldwide Operations	United States	Western Europe	Japan	Consolidation	Consolidated Total
Year ended January 31, 1986					
Revenues	\$23,051,587	\$5,880,650	\$ 598,702	\$ -	\$29,530,939
Revenues between geographic areas	1,099,387	-	-	(1,099,387)	-
Total revenues	\$24,150,974	\$5,880,650	\$ 598,702	\$(1,099,387)	\$29,530,939
Operating income	\$11,530,380	\$1,047,069	\$(184,543)	\$ -	\$12,392,906
Income before taxes	\$12,049,460	\$1,149,277	\$(187,880)	\$ -	\$13,010,857
Identifiable assets	\$22,206,026	\$3,564,461	\$ 715,909	\$(1,802,907)	\$24,683,489
Year ended January 31, 1985					
Revenues	\$ 8,719,383	\$1,154,591		\$ -	\$ 9,873,974
Revenues between geographic areas	30,875	-		(30,875)	-
Total revenues	\$ 8,750,258	\$1,154,591		\$ (30,875)	\$ 9,873,974
Operating income	\$ 2,373,550	\$ 443,915		\$ -	\$ 2,817,465
Income before taxes	\$ 2,419,672	\$ 461,424		\$ -	\$ 2,881,096
Identifiable assets	\$ 4,232,191	\$ 804,640		\$ (137,470)	\$ 4,899,361

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 approximately \$2,241,000 (\$783,000 in 1985) to unaffiliated customers outside the United States.

At January 31, 1986 and 1985, total foreign net equity was \$1,361,971 and \$378,537, respectively.

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

Results of Operations

Net Revenues

The Company's net revenues have increased significantly since completion of initial product development and the introduction of AutoCAD in November 1982. This increase has been due primarily to the emergence of the market for personal computer CAD software and the growing market acceptance of AutoCAD by domestic and foreign customers.

The Company's net revenues in fiscal 1986 increased approximately 200% over fiscal 1985 net revenues, which had increased approximately 730% from fiscal 1984. The rate of growth in fiscal 1986 and fiscal 1985 resulted primarily from increased unit sales of AutoCAD, which accounted for substantially all of the Company's net revenues through fiscal year 1985 and approximately 91% of net revenues in fiscal 1986. Sales of CAD/camera and AutoCAD AEC began to contribute to net revenues at the beginning of the third quarter of fiscal 1986.

The Company continued to expand the operations of its subsidiaries in Europe during fiscal 1986. Those subsidiaries achieved a growth rate in net revenues of 409% over fiscal 1985. In addition, the Company organized a Japanese subsidiary in April 1985, which began shipping the full Japanese Kanji 2.1 version of AutoCAD in January 1986, replacing a partial Japanese 2.0 version. The operations of the Japanese subsidiary were devoted primarily to startup efforts and the development of the 2.1 Kanji version during fiscal 1986. Foreign sales, including sales from the United States to unaffiliated foreign customers, accounted for approximately 30% and 20% of net revenues in 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 60% and 55% of net revenues in fiscal 1986 and fiscal 1985, respectively, and to computer manufacturers, which accounted for approximately 9% and 22% of net revenues in fiscal 1986 and fiscal 1985, respectively. 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 two fiscal years, and has decreased from approximately 19% of net revenues in fiscal 1984, primarily due to revenues increasing substantially faster than the related cost of revenues, increased sales of AutoCAD extension packages which bear no royalty cost, and certain economies of scale associated with higher sales volumes. In fiscal 1986, these factors offset the effect of a slight increase in the cost of manuals in Europe and Japan due to lower volume orders for foreign native language versions of AutoCAD.

Marketing and Sales

Marketing and sales expenses increased by approximately \$4,448,000 from fiscal 1985 to fiscal 1986, reflecting significant expansion in both domestic and foreign operations. These expenses decreased as a percentage of revenues from 29% to 25% between those fiscal years primarily because of AutoCAD's growing market acceptance and penetration, resulting in revenues increasing substantially faster than marketing and sales expenditures, and the benefits of programs initiated in fiscal 1985. Marketing and sales expenses increased from 26% of net revenues in fiscal 1984 to 29% in fiscal 1985 primarily due to increased advertising and promotion expenses, increased staffing for dealer and product support, and expansion of both domestic and foreign marketing and sales operations.

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. As a percentage of net revenues, research and development expenses have decreased from 17% in fiscal 1984, to 13% in fiscal 1985 and 6% in fiscal 1986. In each quarter of fiscal 1986 these expenses have remained relatively constant at between 5% and 6% of net revenues. In fiscal 1985, the Company paid and accrued substantial cash bonuses to research and development personnel which resulted in substantially higher research and development expenses. The Company intends to continue to recruit and hire experienced software developers, while simultaneously encouraging development of complementary software technology and products through royalty arrangements based upon the Company's net revenues. During fiscal years 1984, 1985, and 1986, royalty expense was \$71,651, \$619,723 and \$1,026,335, respectively. See Note 7 of *Notes to Consolidated Financial Statements*.

General and Administrative

General and administrative expenses include the finance, accounting, purchasing, facilities, and administrative operations of the Company. These costs have continued to decrease as a percentage of net revenues, from 27% in fiscal 1984, to 14% in fiscal 1985 and 12% in fiscal 1986, since many of these expenses do not vary in proportion to the increase in net revenues. These expenses increased by approximately \$2,150,000 in fiscal 1986 from fiscal 1985, primarily due to significant expansion of European operations, organization and startup of the Japanese subsidiary, increased staffing and the purchase of capital equipment and leasehold improvements in the United States. These increases were more than offset by the continued rapid increase in net revenues and associated economies of scale, however.

Net Income

Net income increased approximately 300% from fiscal 1985 to fiscal 1986, resulting in net income per share of \$1.03 as compared with \$.30. Net income also increased significantly from fiscal 1984 to fiscal 1985. The continued growth of the Company's net income has been favorably affected by increased unit sales volume, resulting in production efficiencies and economies of scale, and

by the addition of a separately priced extension to AutoCAD in the first half of fiscal 1986, as well as by contribution from the new CAD/camera and AutoCAD AEC products that began shipping during the second half of fiscal 1986.

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 1985 and fiscal 1986. 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, changes in product mix between dealers and computer manufacturers and fluctuations in foreign sales could result in quarterly variations in the Company's results of operations.

Liquidity and Capital Resources

The Company's primary source of liquidity is cash flow from operations. In mid-1985, the Company sold 1,210,000 shares of Common Stock in its initial public offering and received net cash proceeds of approximately \$12,000,000. In addition, the Company has a \$4,000,000 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 at January 31, 1986. The Company's principal commitments at January 31, 1986 consisted of obligations under capital and operating 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 its business. The Company believes that its existing cash and cash equivalent balances, cash generated from operations, and available borrowings under its line of credit will be sufficient to satisfy the Company's presently anticipated cash requirements.

CORPORATE INFORMATION

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OFFICERS

John Walker
President and Chief Executive Officer

Daniel Drake
Vice President, Secretary

Keith Marcelius
Vice President-Research & Development

Alvar Green
*Vice President-Finance,
Chief Financial Officer, Treasurer*

Richard Handyside
Vice President-European Operations

DIRECTORS

John Walker
*President and Chief Executive Officer
Autodesk, Inc.*

Daniel Drake
*Vice President
Autodesk, Inc.*

Gregory Lutz
*Founder
Autodesk, Inc.*

Alvar Green
*Vice President-Finance,
Chief Financial Officer, Treasurer
Autodesk, Inc.*

HEADQUARTERS

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Palo Alto, CA 94306

TRANSFER AGENT

First Interstate Bank
Corporate Trust Department
405 Montgomery Street
San Francisco, CA 94104

INDEPENDENT ACCOUNTANTS

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

SHAREHOLDER INFORMATION

PER SHARE STOCK DATA AND DIVIDEND POLICY-FISCAL YEAR 1986

	Bid Prices		Trading Volume
	High	Low	
First Quarter	N/A	N/A	N/A
*Second Quarter	15½	11¾	1,801,066
Third Quarter	16¾	12¼	1,759,108
Fourth Quarter	26½	14½	2,565,797

The Company's Common Stock is traded over the counter on the NASDAQ National Market System using the symbol "ACAD." The above table shows the range of bid prices for a share of Common Stock during the Company's fiscal quarters indicated, as furnished by NASDAQ. The quotations represent inter-dealer quotations without adjustment for retail markups, markdowns or commissions, and do not necessarily represent actual transactions. As of April 7, 1986, the approximate number of shareholders of record of Common Stock was 440.

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 2:00 P.M. on May 30, 1986, 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 1986 filed with the Securities and Exchange Commission may be obtained without charge by a written request to the Company's Secretary at 2320 Marinship Way, Sausalito, CA 94965.

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

IBM RT PC is a trademark of International Business Machines
MS™-DOS is a trademark of Microsoft Corporation
Ultracam™ is a registered trademark of Ultracam Incorporated
SUN™ is a registered trademark of SUN Microsystems Incorporated
Apollo™ is a registered trademark of Apollo Computer Incorporated
DEC MicroVAX II™ is a trademark of Digital Equipment Corporation

