

Adobe Systems creates, markets and supports computer systems software and application software. The company's PostScript™ page description language and extensive type library are industry standards, used for device-independent communication among computers, software, printers and typesetters.

Adobe's software products have made high-quality visual communication possible in personal computing. Technology developed at Adobe has effectively brought 500 years of printing and publishing techniques to computer users.

About the Front and Back Cover and page 12 illustrations:

Adobe Systems has grown into a true multinational company that is changing the way people print and publish around the world with its innovative technology and advanced products, as exemplified by these designs. Created by San Francisco designer Michael Cronan, the collages began as quick sketches. Assisted by Robert Schwarzbach, Cronan designed a simple template using Adobe Illustrator™ software to unify the artwork, then added photographs to the template, and adjusted their color using the Adobe Photoshop™ program. The images include visual references to Adobe Illustrator, Adobe™ Collector's Edition: Patterns and Textures, and Adobe Streamline™ software. To create the world of Adobe Systems, Cronan also incorporated images from this annual report and by photographers Doug Menezes, Rob Outwater, Rick Smolan and Russell Brown.

<i>Fiscal Year Ended</i> <i>(in thousands except per share data)</i>	<i>Dec. 1, 1989</i>	<i>Nov. 30, 1988</i>	<i>Nov. 30, 1987</i>	<i>Nov. 30, 1986</i>	<i>Nov. 30, 1985</i>
Revenue	\$ 121,358	\$ 83,483	\$ 39,324	\$ 16,055	\$ 4,604
Income before income taxes	54,853	35,750	16,892	7,220	838
Net income	33,706	21,080	8,982	3,586	496
Net income per share	1.55	.98	.43	.19	.03
Working capital	43,245	32,525	17,543	11,151	3,148
Total assets	94,139	65,460	32,302	20,016	6,074
Shareholders' equity	58,825	44,297	23,525	13,719	4,646
Dividends declared per share	.20	.12	—	—	—

CONTENTS

Corporate Profile	<i>Inside front cover</i>
Financial Highlights	<i>1</i>
Letter to Shareholders	<i>2</i>
Photo Highlights	<i>4</i>
The Impact of PostScript	<i>10</i>
The Corporate World Communicates	<i>Special fold-out</i>
Management's Discussion and Analysis	<i>13</i>
Financial Statements	<i>16</i>
Corporate Directory	<i>28</i>

“Adobe continues to have a major impact on the integration of graphic arts and computers.”

To Our Shareholders:

January 17, 1990

Software from Adobe has revolutionized computer printing and publishing. Products based on the company's PostScript language are now used routinely by individuals and corporations all over the world. Adobe continues to have a major impact on the integration of graphic arts and computers.

Our business environment is exciting. In 1989, Adobe announced significant new products. Relationships with current customers changed. And new customer relationships and markets formed.

More than 66 printer products based on PostScript software are currently shipping. These include a wide range of machines from over 30 manufacturers. In fact, nearly every major computer systems, printer and typesetter manufacturer now offers printing solutions from Adobe.

Adobe's Display PostScript™ software is shipping in volume on both NeXT® and Digital workstations. This product brings our high-quality graphics technology to workstations and personal computers. With the industry-standard PostScript imaging model driving both printers and displays, computer screens match printer output as closely as possible. The machines are device independent, so customers gain the advantage of PostScript language file portability between applications running on a variety of different computers.

Adobe Type Manager™ software, which is new this year, will bring Adobe typefaces to a very large new market. For computer systems and printer vendors, the software provides high-quality font scaling. Now these manufacturers can offer a consistent font strategy that works across all of their products—from low-cost printers through high-end PostScript printers and typesetters.

In the retail market, the Adobe Type Manager program brings high-quality scalable font software to customers' Macintosh® displays and low-cost, dot matrix and ink jet printers. Adobe Type Manager is compatible with the Display PostScript system and all PostScript printers.

The competitive environment for Adobe changed in 1989. Early in the year, Apple Computer announced that it would develop and release its own font scaling technology. In July, Apple sold its 3,423,792 share investment in Adobe, which it had held since 1984, and realized at least a 3,000-percent gain on the transaction. Later in the year, Apple and Microsoft announced joint plans to support the Apple font technology. They did not announce products or provide availability dates.

In the face of these competitive events, Adobe accelerated its development of Adobe Type Manager software for the Macintosh and shipped the product in October. In the first six weeks, we shipped over 100,000 units. User support for the program has been exceptionally strong.

We believe that the size and quality of the Adobe™ Type Library, the quality of our type rendering, the device independence of the technology, and the broad appeal of Adobe Type Manager software will contribute to Adobe's continuing leadership position in both the Apple and the IBM® PC markets.

The Adobe Type Library nearly doubled in 1989, to include software for over five hundred typefaces. Adobe Illustrator™-Windows Version, for IBM personal computers and compatibles, began shipping in January 1989. We also introduced Adobe Streamline™, software for the Macintosh and IBM PC that converts scanned artwork and other bitmapped images into PostScript language format.

In March, we announced a license agreement with Canon Inc. of Japan, the world's largest maker of laser printing engines. Adobe also agreed to license its font production technology to five major suppliers of high-quality typefaces: AGFA Compugraphic, Autologic, Monotype, Morisawa and Varityper. This will broaden the number of typefaces available for PostScript printers and typesetters.

The company acquired Photoshop, a color image processing program for Macintosh computers, last July. Adobe Photoshop™ software, scheduled for release in February 1990, will enable graphic artists and desktop publishers to produce elaborate special effects photography.

Early in 1989, Adobe formed a subsidiary with an office in Tokyo. This subsidiary supports a strong systems business in Japan, as well as software developers working on applications that take advantage of the new PostScript Kanji printers. A Kanji version of Adobe Illustrator was introduced in May. As more software developers address this market, we expect to see steady, continued growth.

To strengthen ties with our customers in Europe, the company established a United Kingdom subsidiary in London. This office will complement Adobe Systems Europe B.V., our international subsidiary in Amsterdam. As Adobe and its customers bring our products to new markets, PostScript software is becoming an integral factor for electronic printing and publishing throughout the world.



*John E. Warnock
Chairman of the Board
and Chief Executive Officer*



*Charles M. Geschke
President and
Chief Operating Officer*

A handwritten signature in cursive script that reads "John E. Warnock".

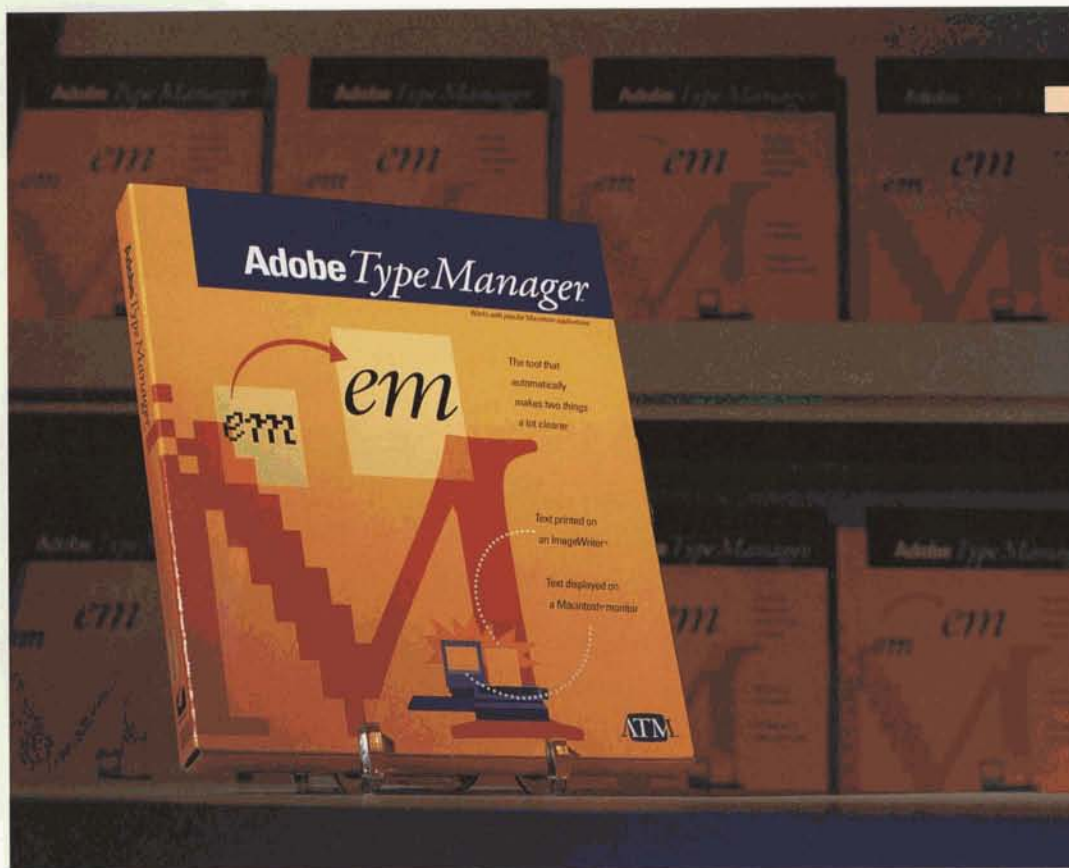
*John E. Warnock
Chairman of the Board and
Chief Executive Officer*

A handwritten signature in cursive script that reads "Charles M. Geschke".

*Charles M. Geschke
President and Chief Operating Officer*

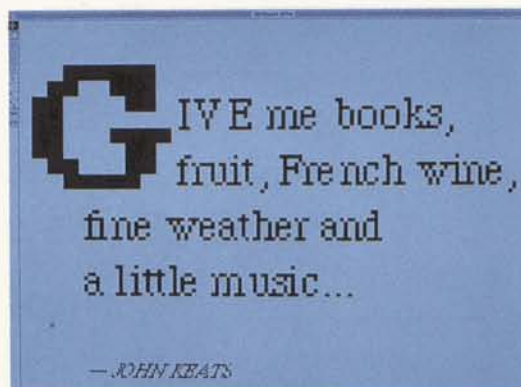
1989: The Year in Pictures

New Products and Markets Contribute to Adobe's Growth

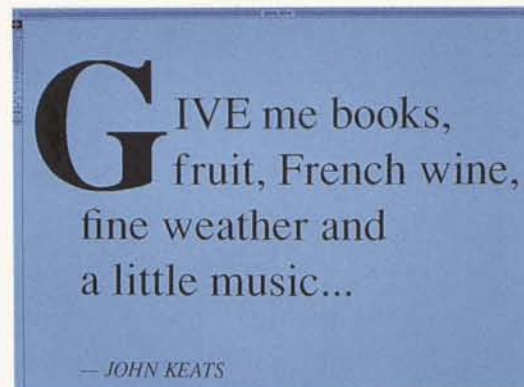


Adobe Type Manager smooths out “jaggies”—in print and on displays

A new product for the Macintosh, the Adobe Type Manager program, brings PostScript outline font software to a broad range of printers and computer displays. Text on displays becomes sharp and readable at large and small point sizes.



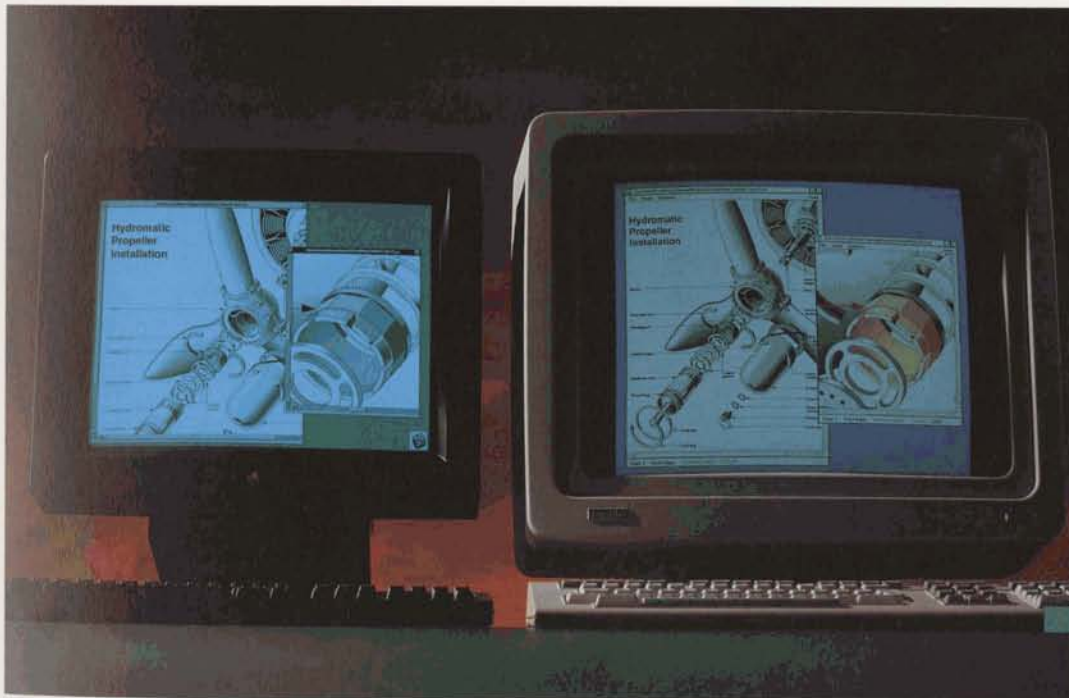
Without Adobe Type Manager



With Adobe Type Manager

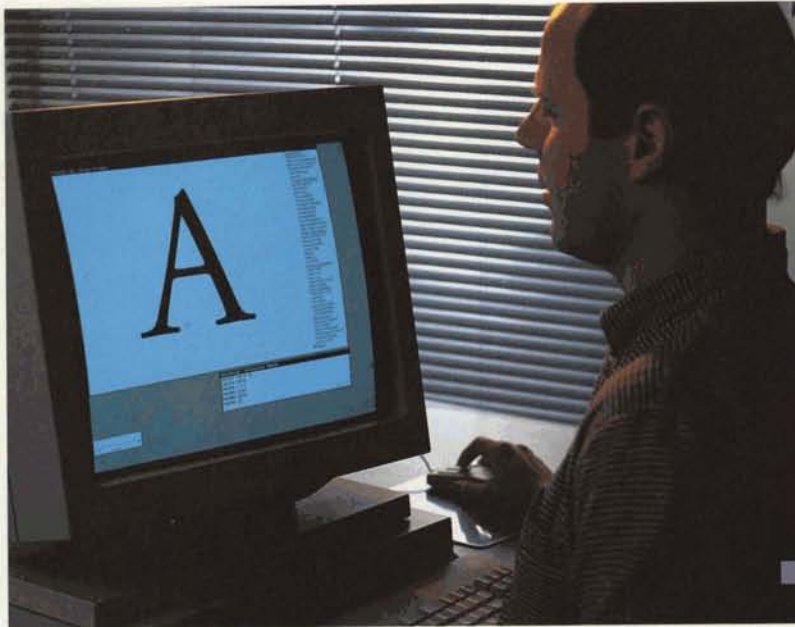
PostScript software technology expands

The company's advanced development team is working to improve quality, performance and language capabilities. They also design controllers to provide PostScript solutions for increasingly sophisticated workstations and printing systems.



Display PostScript ships

Adobe's Display PostScript system shipped in volume on both Digital and NeXT workstations in 1989. With the PostScript imaging model driving both displays and printers, screens match printer output.



Original typeface families
increase design options

Adobe introduced Adobe Originals™, a new line of professional typeface software designed by Adobe font developers. Quality type design is both an art and a science. Adobe type designer Robert Slimbach, pictured here, researched many renditions of a 16th-century design before creating the Adobe Garamond™ typeface.

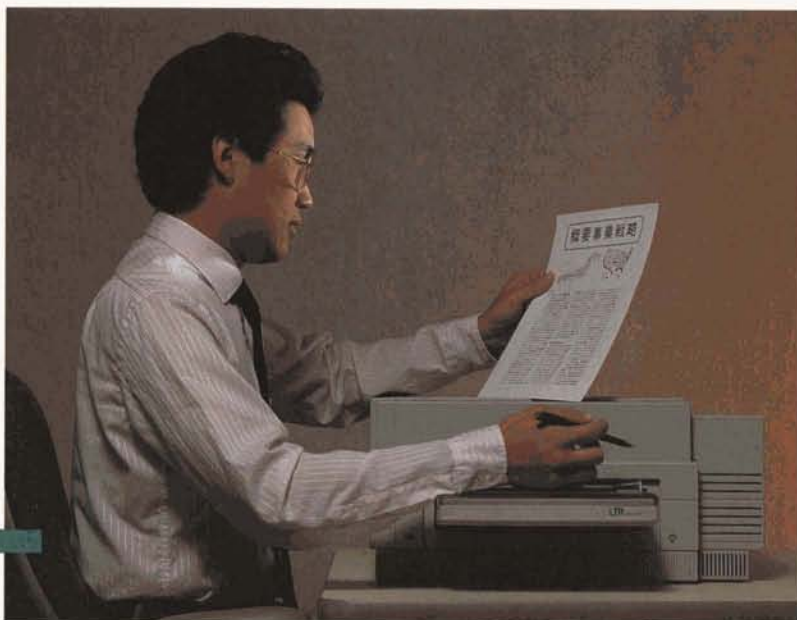
New products
improve customers'
text and graphics

These new application software products are helping Adobe continue to play a leading role in the electronic publishing market. Adobe's retail products build on the advantages of the PostScript language, and bring Adobe typeface software to a broad range of customers.



Adobe opens new markets in Japan

Adobe formed a subsidiary with an office in Tokyo early in 1989. In May, the company shipped a Kanji version of the Adobe Illustrator 88 software program. Throughout fiscal 1989, several Adobe OEM customers, including Apple, Digital, Fujitsu and NEC, shipped PostScript Kanji printers.



Adobe Collector's Edition produces high-quality pattern art

Adobe Collector's Edition: Patterns and Textures shipped in January 1989. A fast, convenient alternative to the time-consuming process of applying rub-down or hand-drawn patterns to drawings, this software works with Adobe Illustrator 88 to enable architects, geologists and cartographers, as well as graphic artists, to shade and fill electronic art.



Color PostScript software debuts in new printers

QMS introduced the first PostScript color printer in 1988. Agfa introduced the first color PostScript slide maker in 1989, and color printers featuring Adobe's PostScript software were announced by DuPont, Océ and NEC. Now artists, designers and publishers can produce and proof color compositions on a personal computer, then make color separations on a high-resolution PostScript typesetter.

The Impact of Adobe's PostScript Technology on Visual Communications

Ten years ago, this copy would have been written on an IBM Selectric™ typewriter. It would have been edited with a pencil, and perhaps retyped to be legible. The typed pages would be covered with cryptic notations for the typesetter, who would have to rekey the manuscript to appear in the specified typeface—a process that inevitably delayed production. Meanwhile, illustrations had to be drawn by hand with technical pens. Corrections took hours. Days passed before the “camera-ready” boards could be bundled up and shipped to the printer, who would transform the pages into their final, printed form.

Personal computers with word processing programs made writing faster and easier. People so appreciated the gain in productivity, that they were willing to put up with the monotonous appearance of computer text on word-processed documents.

Just five years ago, editors and art directors still marked copy pages with arcane instructions for the typesetter, although now they could send a computer disk along with the manuscript, so the files could be transferred electronically—without retyping. Messengers continued to shuttle pages between the people who wrote the copy and those who set the type. All of the other steps of traditional printing and publishing remained the same. Publishing was a costly, time-consuming, labor-intensive process. And computers were used mostly for calculating and word processing.

Software from Adobe Systems changed all that—and revolutionized electronic printing and publishing. The company's PostScript page description language enables customers to create, print and transfer files among applications that run on a variety of computer systems. And Adobe's retail software products make high-quality typefaces and precision graphics possible in personal computing.

For example, each step in the production of this annual report involved Adobe products and technology. The copy was written with a popular word process-

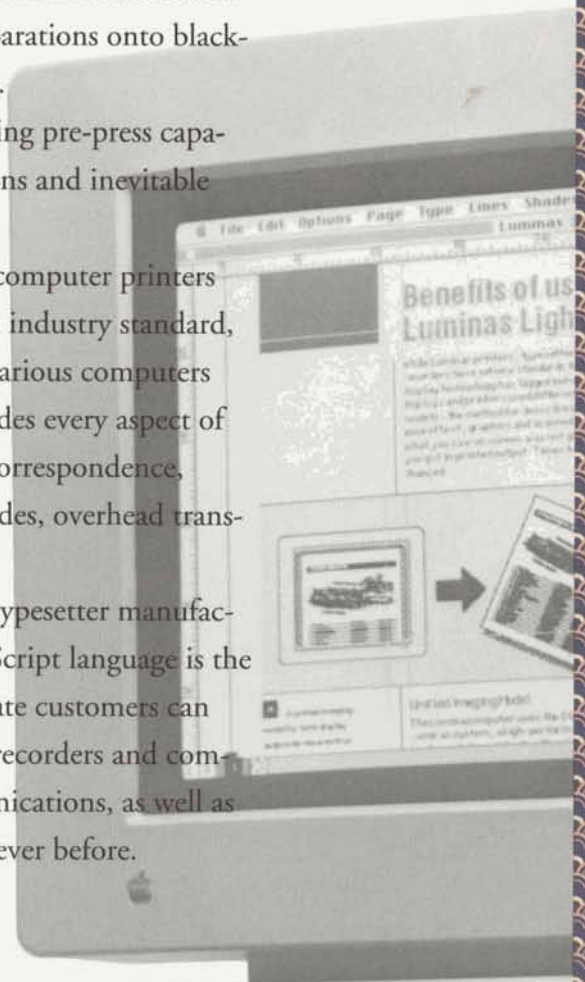
ing program in an attractive typeface from the Adobe Type Library. Thanks to Adobe Type Manager software, the type on the writer's computer screen looks almost identical to the type on the manuscript pages, which were proofed with a PostScript laser printer.

The writer used a modem to transmit electronic files of the manuscript to the designer, who was working on a personal computer at another location. The designer scanned 35mm slides, manipulated the scanned photos with Adobe Photoshop software, and proofed the results on a PostScript color printer. Additional artwork was scanned, then traced with Adobe Streamline software and modified in the Adobe Illustrator program. The designer selected type from the Adobe Type Library and used a popular page layout program to integrate the text and photos. Revisions were made immediately, and a PostScript color printer enabled us to proof the final draft. Adobe Separator™ was used with a PostScript typesetter to make color separations onto black-and-white film; then the package was sent to a commercial printer.

Adobe puts the tools and information people need, including pre-press capabilities, within easy reach on the desktop. The frustrating limitations and inevitable delays of traditional publishing are becoming relics of the past.

The company's PostScript page description language tells computer printers how the type should look and how the page should be printed. An industry standard, the PostScript language provides seamless integration among the various computers and output devices. As a result, Adobe's PostScript language pervades every aspect of visual communications—including books, charts, maps, reports, correspondence, manuals, forms, brochures, newsletters, posters, ads, packaging, slides, overhead transparencies, spreadsheets, diagrams and illustrations.

Today, nearly every major computer systems, printer and typesetter manufacturer offers Adobe PostScript printing solutions. Because the PostScript language is the industry standard for device-independent communication, corporate customers can transmit text and graphics to PostScript printers, typesetters, film recorders and computer displays throughout the world. This makes business communications, as well as professional publishing, faster, easier and more cost-effective than ever before.



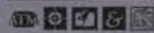


THE
CORPORATE
WORLD
COMMUNICATES

Here's How Multinational Corporations Can Use Adobe Products

PRINTING FACILITY

Text and illustration files for instruction manual are compiled in page layout program, typeset and printed. Sales brochure and product package are also printed.



RESEARCH & DEVELOPMENT

Engineer drafts product proposal and rough sketches, then transmits both via modem to Product Engineering in Dallas and Corporate Headquarters in New Jersey. When she receives an encouraging memo in response, the engineer creates an overhead transparency presentation.



TECHNICAL PUBLICATIONS

Instruction manual for new product is written and illustrated. PostScript language files are sent to the printing facility in Chicago, and to Taiwan manufacturing site.



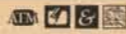
7 MARKETING COMMUNICATIONS

Sales brochure, data sheet and product package are written and designed. Creative teams for projects use Adobe Illustrator and Adobe Photoshop to manipulate scanned art, font software from the Adobe Type Library to set type, and other PostScript software to integrate text and graphics. PostScript typesetter prints camera-ready pages from electronic files. Pages are shipped to the printer in Chicago.



2 CORPORATE HEADQUARTERS

Marketing manager develops detailed product plan. Project team members use PostScript products to produce spreadsheets, sales projections and a slide presentation for senior executives. Product plan is approved and transmitted to international offices.



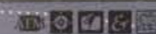
3 PRODUCT ENGINEERING

Engineering specification and technical drawings are created to provide guidelines for development of a prototype. Product engineers transmit encapsulated PostScript language files of specifications and drawings to the Technical Publications group in Los Angeles and to Manufacturing in Taiwan.



10 EUROPEAN TECHNICAL PUBLICATIONS

Instruction manual for new product is translated, typeset and printed in German, French, Italian, Dutch, Swedish and Spanish.



9 EUROPEAN MARKETING

European Marketing Communications group develops multi-lingual version of sales brochure. They use the photos from Australia, together with encapsulated PostScript language files of the charts from New Jersey and sales copy from Seattle.



5 TOKYO OFFICE

Marketing group receives product plan and drafts national marketing plan and presentation. Instruction manual is translated into Japanese, then typeset and printed with Adobe's Kanji font software for Japanese market.



6 MANUFACTURING

Factory workers view engineering drawings on Display PostScript remote viewing stations, to match first-run units with drawings during product assembly. Progress report is transmitted to Corporate Headquarters.



8 PHOTOGRAPHER

Photographer sends shots of product prototype and manufacturing facility to Corporate Headquarters to be included in sales brochure and company's annual report.



ADOBE PROVIDES STANDARD FOR WORDS AND PICTURES

From New York to Tokyo, from Brussels to Los Angeles and Taiwan, Adobe products and technology help business computer users and publishing professionals create, print and transfer documents easily.

Adobe's PostScript software technology is the recognized standard for electronic printing and publishing. Because the PostScript language is device and platform independent, it enables people working in various disciplines, on different kinds of computers, in all parts of the world, to communicate.

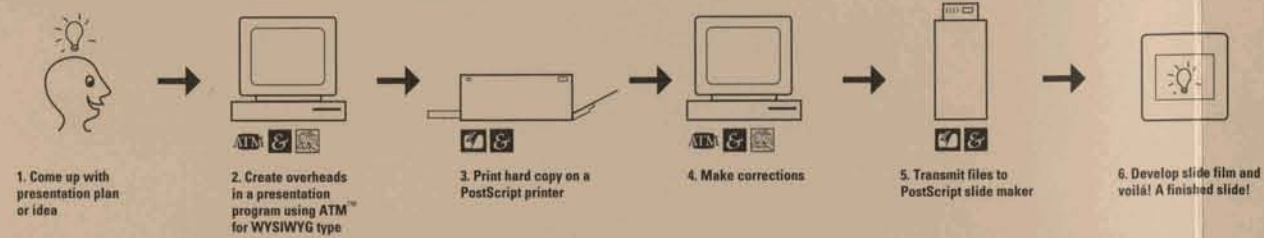
The example on these pages illustrates how people who work in many divisions of an international corporation might use PostScript language solutions during each phase of product development, documentation, manufacturing and marketing.

ADOBE PRODUCTS LEGEND

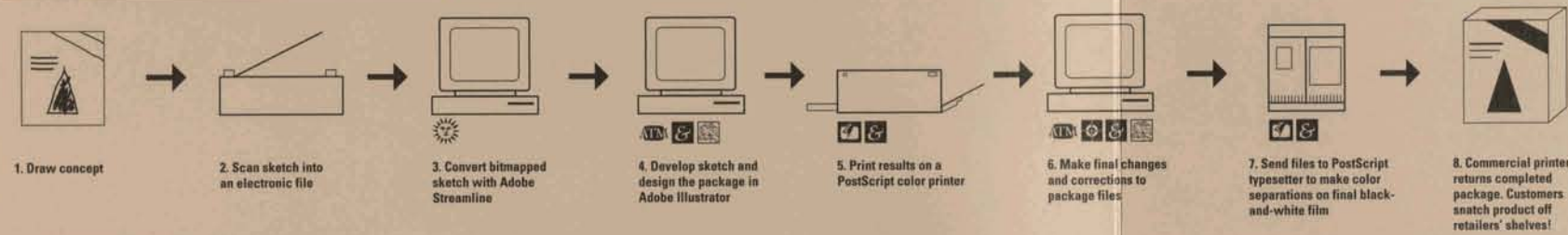
- ATM™ Adobe Type Manager™
- Adobe Separator™
- Adobe Photoshop™
- PostScript™, Display PostScript™
- Adobe Streamline™
- Adobe™ Type Library
- Adobe Illustrator™

Adobe Products Provide Solutions

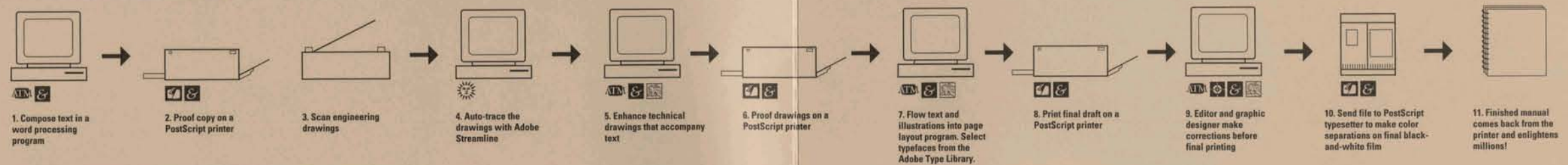
SLIDES/OVERHEAD PRESENTATIONS



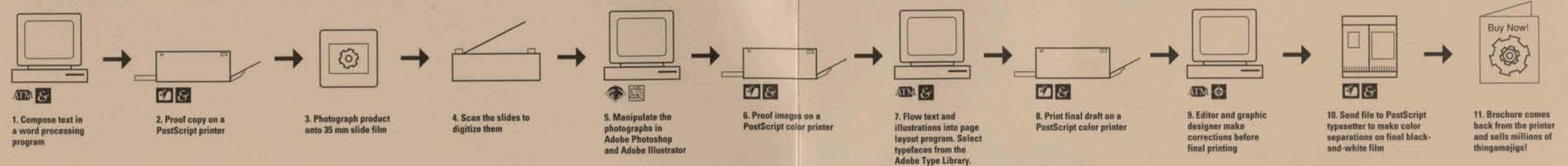
PRODUCT PACKAGING



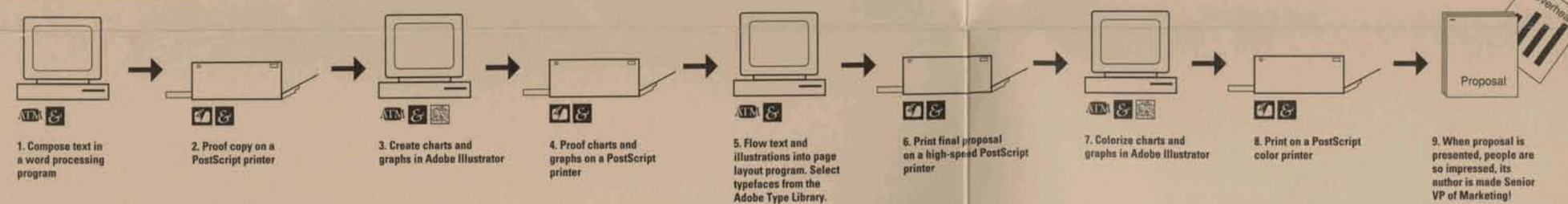
USER MANUALS



FLYERS/ PRODUCT BROCHURES



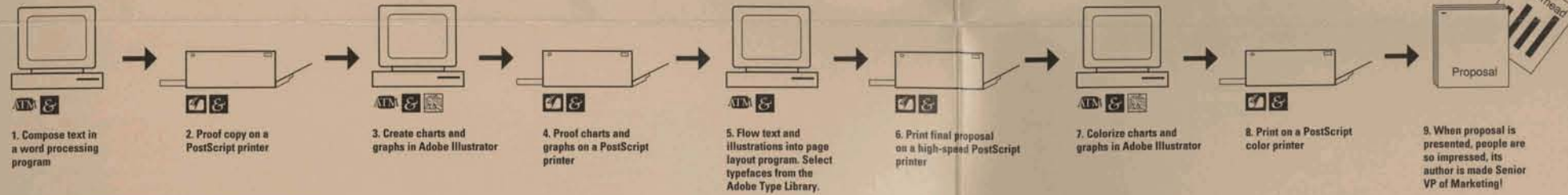
PROPOSALS



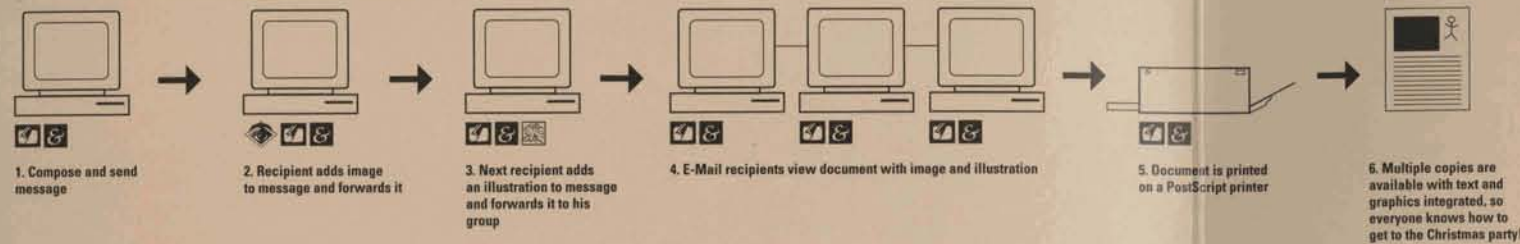
ELECTRONIC MAIL



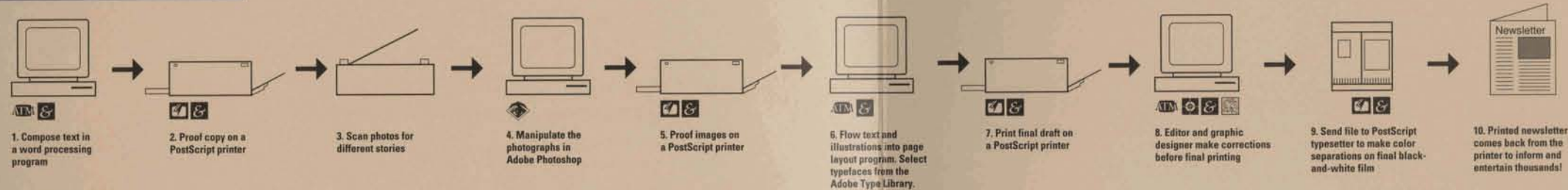
PROPOSALS



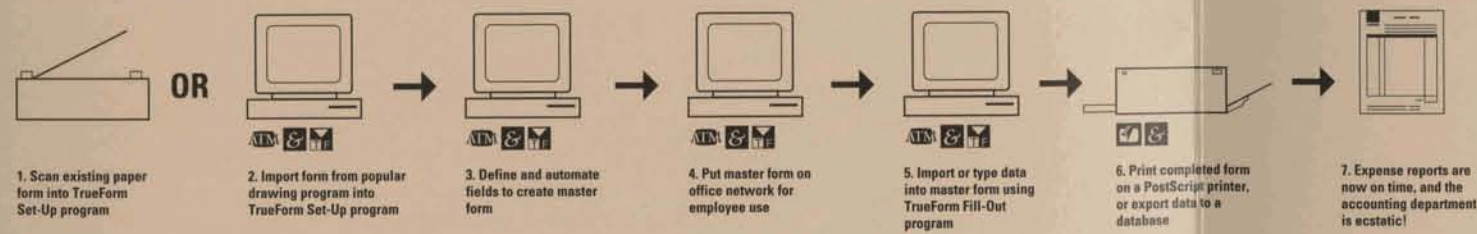
ELECTRONIC MAIL



NEWSLETTERS



FORMS



ENGINEERING DOCUMENTATION



Adobe Products Legend

-  Adobe Type Manager
-  Adobe Separator
-  Adobe Photoshop
-  PostScript, Display PostScript
-  Adobe Streamline
-  Adobe Type Library
-  Adobe Illustrator
-  TrueForm™

Nearly every major computer systems, printer and typesetter manufacturer offers printing solutions from Adobe. The PostScript language gives manufacturers, software developers and computer users access to an industry-standard imaging model for both printers and computer displays.

The Adobe Type Library and the company's application software products build upon the

advantages of the PostScript language, to bring electronic publishing solutions to users throughout the world. Available for Apple Macintosh, DOS and OS/2™, UNIX® and DEC VAX®/VMS®, and NeXT® Step formats, these products play a leading role in developing the electronic publishing market.

APPLICATION PRODUCTS

Adobe Type Manager	<i>Software that brings high-quality scalable fonts to monitors and low-cost printers</i>
Adobe Type Library	<i>More than 500 typefaces—the finest selection of quality font software available for electronic printing and publishing</i>
Adobe Font Folio	<i>A hard disk that contains the entire Adobe Type Library</i>
Adobe Publishing Packs	<i>Typeface collections designed to address specific business applications</i>
Adobe Originals	<i>Original typefaces developed by Adobe's font designers</i>
Adobe Illustrator	<i>Award-winning program that sets new standard for high-quality computer illustration</i>
Adobe Streamline	<i>Tracing program that automatically converts scanned art or other bitmapped images into Adobe Illustrator or encapsulated PostScript language files</i>
Adobe Collector's Edition	<i>Assortment of pre-drawn, easily modifiable shapes, patterns and textures for graphic artists</i>
TrueForm	<i>Forms processing program that enables customers to automate existing forms, or create new ones</i>
Adobe Photoshop	<i>Image-processing program that lets customers create, enhance and retouch continuous-tone artwork</i>
Adobe Separator	<i>Utility software that enables high-quality color separations for commercial printing (included with Adobe Illustrator)</i>

SYSTEMS PRODUCTS

PostScript	<i>Powerful, industry-standard imaging model used for communication among computers, software, printers and typesetters</i>
Display PostScript	<i>A single PostScript imaging model that unifies computer systems, displays and output devices</i>
PostScript Kanji	<i>Software that adds Japanese language capabilities to PostScript products</i>
TranScript™	<i>Software that translates UNIX file formats into PostScript language files</i>
Adobe Type Manager	<i>High-quality scalable font technology for computer systems, displays and printers</i>
Adobe Type Library	<i>More than 500 high-quality typefaces available for inclusion with PostScript printers and typesetters</i>

ADOBE'S OEM CUSTOMERS

AGFA Gevært N.V.
Compugraphic
Matrix
Apple Computer
AST Research
Autologic
Canon
Dataproducts
Diconix, a division of Eastman Kodak
Company
Digital Equipment Corporation
DuPont
Fujitsu
GCC Technologies
Gestetner Lasers
Hewlett-Packard
IBM
Linotype
Matsushita
Monotype
NEC Corporation
NEC Information Systems
NeXT
Océ Graphics
Optronics
QMS
Q/Cor
Qume
Ricoh
Scangraphic
Scitex
Texas Instruments
Vartypers
Wang

ADOBE™ Adobe Systems
Incorporated

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Management's Discussion and Analysis

<i>Percentage of Revenue Year Ended</i>	<i>Dec. 1, 1989</i>	<i>Nov. 30, 1988</i>	<i>Nov. 30, 1987</i>	<i>% Change 1988 to 1989</i>	<i>% Change 1987 to 1988</i>
REVENUE					
Royalties	67.5%	73.8%	69.4%	32.9%	125.8%
Product sales	28.6	23.1	26.1	80.0	87.9
Contract revenue	3.9	3.1	4.5	84.6	45.9
Total revenue	100.0	100.0	100.0	45.4	112.3
COSTS AND EXPENSES					
Direct costs	16.0	17.6	14.3	31.9	162.4
Research, development and contract costs	11.1	8.8	10.5	84.3	76.2
Sales, marketing and customer support	22.4	25.9	27.3	25.5	101.6
General and administrative	8.0	6.8	6.9	71.4	108.5
Total costs and expenses	57.5	59.1	59.0	41.4	112.6
Operating income	42.5	40.9	41.0	51.1	111.8
Interest income	2.7	1.9	1.9	104.2	107.0
Income before taxes	45.2	42.8	42.9	53.4	111.6
Income tax expense	17.4	17.6	20.1	44.2	85.5
Net income	27.8%	25.2%	22.8%	59.9%	134.7%

RESULTS OF OPERATIONS

Total revenue for the Company grew rapidly during the three years ended December 1, 1989. The Company's original equipment manufacturer (OEM) customers continued to develop and market new printers, typesetters and other output devices incorporating the Company's PostScript interpreter. During the past three years these products have continued to have strong sales, which have produced a significant growth in royalty revenue. In fiscal 1987, eight customers were paying the Company royalty revenue. In fiscal 1988 royalty-paying customers increased to 13, and at the end of fiscal 1989 there were 19 customers paying royalties to the Company. During fiscal 1989 several of the Company's OEM customers began shipping Japanese-language PostScript printers capable of printing Kanji characters for the Japanese market. While this activity was of relatively modest size in fiscal 1989, the Company believes that this market will be a source of growing

future revenue and has invested heavily in development and sales activity to support its Japanese and domestic OEMs that ship into the Japanese market.

Apple Computer continued to be the single largest royalty paying customer. However, its share of the Company's total revenue has continued to decrease from 49% in fiscal 1987 to 33% in fiscal 1988 and 25% in fiscal 1989. The Company's other OEM customers have increased their share of the Company's total revenue, although no other customer accounted for greater than 10% of the Company's total revenue in fiscal 1989. One additional customer accounted for 10% of the Company's total revenue in 1988.

In May 1989, Apple Computer announced that it would offer its customers its own font format in future versions of its operating system rather than support only Adobe's. In July, Apple Computer sold its 16.4% common

stock position in the Company in an unregistered, underwritten transaction. At that time, the Company purchased 300,000 shares of its common stock from the underwriters at the offering price of \$24 $\frac{1}{8}$. In September, Apple Computer and Microsoft Corporation announced that Microsoft had licensed the Apple font format for use in OS/2 under the Presentation Manager and that Apple had licensed Microsoft's implementation of the PostScript language, obtained as part of a recent Microsoft acquisition. There were no products announced at that time. However, if Apple introduces printers utilizing Microsoft's interpreter and these printers gain popularity, it is possible that royalty revenue to the Company from Apple could decrease over time.

Revenue from the distribution of software application products for the end user has grown rapidly during the last three years. In fiscal 1987, this activity accounted for \$10.3 million increasing to \$19.3 million in fiscal 1988; in fiscal 1989 these revenues grew to \$34.7 million. The Company introduced new products each year during this time, and increased the number of downloadable typeface programs for the Apple Macintosh and IBM personal computer. In October 1989 the Company began shipping Adobe Type Manager software for the Apple Macintosh. The Adobe Type Manager program is a systems-level software product that is distributed primarily through the Company's dealer/distributor channel. This program reduces the jagged characters or "jaggies" commonly seen with bitmapped type, both on the Macintosh screen and on non-PostScript printers like the Apple Imagewriter.

In 1989, the application products business experienced a higher rate of revenue growth than the royalty business. The Company expects this trend to continue in fiscal 1990.

In 1987, the Company opened its European headquarters in Amsterdam, The Netherlands, to manage distribution of the Company's application products in Europe. Adobe Systems Europe B.V. has contributed significantly to the application software product revenue growth in fiscal years 1988 and 1989. The European office has also expanded sales and support

activities for the Company's European OEM customers and domestic OEM customers selling their products in Europe.

In fiscal 1989, the Company opened an office in Tokyo, Japan to provide sales and support activity. Agreements have been signed with five major OEMs in Japan thus far.

Direct costs comprise packaging, diskettes, and shipping for application software products as well as royalties paid to third parties for typeface designs that are distributed as downloadable software packages or bundled with PostScript interpreters. Royalty expense is generally paid on a per-unit basis whereas royalty revenue can reflect volume discounts. Therefore, direct costs as a percentage of revenue can increase as an OEM customer ships more printers. The Company capitalizes its typeface production costs and amortizes them over a three-year period. Direct costs have increased during the three years due to the growth in the Company's business.

Research, development and contract costs have increased during the three years ended in fiscal 1989 as a result of additional staff and facilities. Hardware and software engineers have been hired to meet the needs of the Company's growing customer and product base. In fiscal 1989, the Company's research, development and contract costs increased as a percentage of revenue as the Company decided to increase its expenditures in this area to service the development needs of its customer base, extend its existing technology, and develop new technologies and products for the future. The Company expects that spending in this category will continue to grow to extend the Company's technologies and product offerings.

Sales, marketing and customer support expenses increased rapidly during fiscal years 1987 and 1988, reflecting additions to the sales and marketing staffs. During fiscal 1989, these expenses increased overall, but decreased as a percentage of revenue from the prior two fiscal years. This was largely due to a slowdown in the rate of increases in sales and marketing staff, and to reduced growth rates in expenditures for public relations and advertising. In addition, certain personnel formerly in sales, marketing and customer support were

transferred into general and administrative departments. The Company continued to hire personnel in sales, marketing and customer support during 1989 and expects to continue to add to its staff in these areas in the future.

General and administrative expenses increased during the three years from 1987 through 1989, due to the increase in revenue, transaction volume and personnel. The Company moved into new facilities in fiscal 1987 and 1988 and added a third major building to its facilities late in fiscal 1989. The Company also acquired a new operations and administrative computer hardware and software system in fiscal 1988. The systems were implemented domestically in fiscal 1988 and in the Company's European operation in fiscal 1989, requiring higher expenditures for systems consulting services. The Company expects general and administrative expenses to grow proportionately with revenue.

Interest income of \$3,242,000, \$1,588,000 and \$767,000 for the years ended December 1, 1989, and November 30, 1988, and 1987, respectively, was earned on the Company's short-term investments and cash balances. The Company's cash and short-term investments have increased each year as its operations remain profitable and its capital equipment expenditures remain relatively modest.

The Company's 1989, 1988 and 1987 effective income tax rates were 38.6%, 41.0% and 46.8%, respectively. For an analysis of the differences between the statutory and effective income tax rates, see Note 6 to the Consolidated Financial Statements. Overall tax rates declined between 1987 and 1988 due to statutory rate changes. The Company adopted Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes," in fiscal 1988. Adopting this standard did not result in a material adjustment to the Company's financial statements.

In fiscal 1989 the Company changed to a 13-week quarter accounting period from its prior practice of ending each quarter on the last day of the last month of the quarter. This did not result in a material difference in the Company's financial statements from prior years. Inflation has not had a

significant impact on the Company's operations.

FINANCIAL CONDITION

Total assets of the Company increased to \$94,139,000 at the end of fiscal 1989, compared to \$65,460,000 in fiscal 1988 and \$32,302,000 in fiscal 1987. Working capital increased to \$43,245,000 in fiscal 1989, and at the end of fiscal years 1988 and 1987, it was \$32,525,000 and \$17,543,000, respectively. At the end of fiscal 1989, deferred revenue was \$7,668,000 compared to \$6,082,000 in fiscal 1988 and \$629,000 in fiscal 1987. A large part of the increase in fiscal 1988 was accounted for by an advance against royalties from one OEM customer for the Company's Display PostScript system. The increase in fiscal 1989 was due to additional royalty advances from new and existing customers for new projects.

The Company's cash and short-term investments have grown to \$49,666,000 in fiscal 1989 from \$35,176,000 in fiscal 1988. In addition to the 300,000 shares of its common stock that the Company purchased from the underwriters at the time Apple sold its Adobe stock, the Company's Board of Directors authorized the Company to repurchase in the open market up to \$15,000,000 of the Company's common stock. As of January 15, 1990, the Company had repurchased 780,000 shares of its common stock at an average share price of approximately \$16 $\frac{3}{4}$.

In fiscal 1988, the Company's Board of Directors elected to pay a cash dividend of \$.04 per common share for each of the Company's second, third and fourth fiscal quarters. In the first quarter of fiscal 1989, the Company's Board of Directors increased the cash dividend on its common shares to \$.05 per share and paid that same dividend rate during each of the subsequent quarters in fiscal 1989.

Consolidated Balance Sheets

December 1, 1989 and November 30, 1988

ASSETS	1989	1988
Current assets:		
Cash and cash equivalents	\$ 13,074,000	\$ 13,361,000
Short-term investments	36,592,000	21,815,000
Receivables (Notes 2 and 8)	24,019,000	14,612,000
Inventory	1,507,000	1,108,000
Deferred income taxes (Note 6)	2,117,000	606,000
Total current assets	77,309,000	51,502,000
Property and equipment (Notes 3 and 10)	9,557,000	8,091,000
Typeface production costs	3,818,000	3,830,000
Other assets	3,455,000	2,037,000
	\$ 94,139,000	\$ 65,460,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accrued expenses (Note 5)	\$ 15,981,000	\$ 8,162,000
Income taxes payable (Note 6)	5,854,000	3,130,000
Other payables	4,561,000	1,603,000
Deferred revenue	7,668,000	6,082,000
Total current liabilities	34,064,000	18,977,000
Capital lease obligations, less current portion (Note 10)	496,000	863,000
Deferred income taxes (Note 6)	754,000	1,323,000
Shareholders' equity (Note 7):		
Common stock, no par value. 50,000,000 shares authorized; 20,103,835 and 20,672,452 shares issued and outstanding at December 1, 1989 and November 30, 1988, respectively	239,000	12,379,000
Retained earnings	58,593,000	31,943,000
	58,832,000	44,322,000
Less shareholder notes receivable	7,000	25,000
Total shareholders' equity	58,825,000	44,297,000
Commitments (Note 10)	\$ 94,139,000	\$ 65,460,000

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Years Ended December 1, 1989, November 30, 1988 and 1987

REVENUE (NOTE 8)	1989	1988	1987
Royalties	\$ 81,877,000	\$ 61,617,000	\$ 27,293,000
Product sales	34,719,000	19,286,000	10,263,000
Contract revenue	4,762,000	2,580,000	1,768,000
Total revenue	121,358,000	83,483,000	39,324,000
COSTS AND EXPENSES (NOTE 9)			
Direct costs	19,421,000	14,719,000	5,610,000
Research, development and contract costs	13,446,000	7,295,000	4,139,000
Sales, marketing and customer support	27,154,000	21,634,000	10,729,000
General and administrative	9,726,000	5,673,000	2,721,000
Total costs and expenses	69,747,000	49,321,000	23,199,000
Operating income	51,611,000	34,162,000	16,125,000
Interest income	3,242,000	1,588,000	767,000
Income before income taxes	54,853,000	35,750,000	16,892,000
Income tax expense (Note 6)	21,147,000	14,670,000	7,910,000
Net income	\$ 33,706,000	\$ 21,080,000	\$ 8,982,000
Net income per share	\$ 1.55	\$.98	\$.43
Shares used in computing net income per share	21,718,000	21,496,000	21,034,000

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years Ended December 1, 1989, November 30, 1988 and 1987

	Common Stock		Shareholder Notes Receivable	Retained Earnings	Total Shareholders' Equity
	Shares	Amount			
<i>(In thousands, except share data)</i>					
Balances as of November 30, 1986	20,307,040	\$ 9,418	\$ (50)	\$ 4,351	\$ 13,719
Issuance of Common Stock under Stock Option Plan	86,550	48	—	—	48
Issuance of Common Stock to employee	8,000	53	—	—	53
Tax benefit from exercise of stock options	—	618	—	—	618
Collections on shareholder notes receivable	—	—	16	—	16
Stock option compensation expense	—	89	—	—	89
Net income	—	—	—	8,982	8,982
Balances as of November 30, 1987	20,401,590	10,226	(34)	13,333	23,525
Issuance of Common Stock under Stock Option Plan	252,832	955	—	—	955
Issuance of Common Stock under Employee Stock Purchase Plan	18,030	228	—	—	228
Tax benefit from exercise of stock options	—	837	—	—	837
Collections on shareholder notes receivable	—	—	9	—	9
Stock option compensation expense	—	133	—	—	133
Dividends declared at \$.12 per share	—	—	—	(2,470)	(2,470)
Net income	—	—	—	21,080	21,080
Balances as of November 30, 1988	20,672,452	12,379	(25)	31,943	44,297
Issuance of Common Stock under Stock Option Plan	315,320	2,088	—	—	2,088
Issuance of Common Stock under Employee Stock Purchase Plan	67,063	1,201	—	—	1,201
Issuance of stock under Restricted Stock Plan	129,000	—	—	—	—
Tax benefit from employee stock plans	—	1,505	—	—	1,505
Collections on shareholder notes receivable	—	—	18	—	18
Stock option compensation expense	—	89	—	—	89
Restricted stock compensation expense	—	366	—	—	366
Dividends declared at \$.20 per share	—	—	—	(4,143)	(4,143)
Repurchase of Common Stock	(1,080,000)	(17,389)	—	(2,913)	(20,302)
Net income	—	—	—	33,706	33,706
Balances as of December 1, 1989	20,103,835	\$ 239	\$ (7)	\$ 58,593	\$ 58,825

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended December 1, 1989, November 30, 1988 and 1987

CASH FLOWS FROM OPERATING ACTIVITIES

	1989	1988	1987
Net income	\$ 33,706,000	\$ 21,080,000	\$ 8,982,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Stock option compensation expense	89,000	133,000	89,000
Restricted stock compensation expense	366,000	—	—
Depreciation and amortization	5,628,000	3,311,000	1,621,000
Deferred income taxes	(2,080,000)	8,000	6,000
Changes in operating assets and liabilities:			
Receivables	(9,407,000)	(7,111,000)	(3,879,000)
Inventory	(399,000)	(578,000)	(484,000)
Accrued expenses	7,819,000	5,278,000	1,926,000
Income taxes payable	4,229,000	1,207,000	253,000
Other payables	2,740,000	(1,213,000)	924,000
Deferred revenue	1,586,000	5,453,000	(11,000)
Net cash provided by operating activities	44,277,000	27,568,000	9,427,000

CASH FLOWS FROM INVESTING ACTIVITIES

Short-term investments, net	(14,777,000)	(10,544,000)	(11,271,000)
Purchases of property and equipment	(5,198,000)	(4,952,000)	(3,027,000)
Capitalized typeface production costs	(1,884,000)	(2,138,000)	(1,821,000)
Other assets	(1,418,000)	(1,974,000)	(193,000)
Net cash used for investing activities	(23,277,000)	(19,608,000)	(16,312,000)

CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments under capital lease obligations	(332,000)	(321,000)	—
Proceeds from issuance of Common Stock	3,289,000	1,183,000	101,000
Collections on shareholder notes receivable	18,000	9,000	16,000
Repurchase of Common Stock	(20,302,000)	—	—
Dividends paid	(3,960,000)	(1,643,000)	—
Net cash (used) provided by financing activities	(21,287,000)	(772,000)	117,000

Net increase (decrease) in cash and cash equivalents	(287,000)	7,188,000	(6,768,000)
Cash and cash equivalents at beginning of year	13,361,000	6,173,000	12,941,000

Cash and cash equivalents at end of year	\$ 13,074,000	\$ 13,361,000	\$ 6,173,000
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SUPPLEMENTAL DISCLOSURES

Cash paid during the year:

Interest	\$ 87,000	\$ 90,000	\$ —
Income taxes	18,998,000	13,304,000	7,638,000
Non-cash investing and financing activities:			
Acquisition of equipment under capital leases	\$ —	\$ 1,514,000	\$ —
Tax benefit from exercise of stock options	1,505,000	837,000	618,000
Dividends declared but not paid	1,010,000	827,000	—

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 1, 1989, November 30, 1988 and 1987

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation.

Adobe Systems Incorporated (Adobe or the Company), formed in 1983, designs, develops and markets systems and application software used to print integrated text and graphics for high-quality electronic printing and publishing applications. The accompanying consolidated financial statements include those of Adobe and its wholly owned subsidiaries, Adobe Systems Europe B.V., Adobe Systems Japan and Adobe Systems U.K. Ltd., after elimination of all significant intercompany accounts and transactions.

Statements of Cash Flows.

Cash equivalents consist of highly liquid money market instruments purchased with a maturity of three months or less and are carried at cost, which approximates market.

Short-term Investments.

Short-term investments are carried at cost, which approximates market. At December 1, 1989, short-term investments consisted principally of municipal bonds, commercial paper, bankers' acceptances, money market preferreds and treasury notes.

Inventory.

Inventory is stated at the lower of cost (first-in, first-out basis) or market (net realizable value).

Property and Equipment.

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets, generally three to eight years. Leasehold improvements are amortized using the straight-line method

over the lesser of the lease term or the estimated useful lives of the related assets, generally five to nine years.

Typeface Production Costs.

Typeface production costs, less \$3,859,000 and \$1,963,000 accumulated amortization in 1989 and 1988, respectively, comprise direct and indirect costs associated with the production of typefaces to be used with the PostScript® interpreter. These costs are amortized on a straight-line basis over the expected product life cycle, generally three to four years, commencing with the market release of each new typeface software program.

Revenue Recognition.

Royalties earned from original equipment manufacturers (OEM) relating to licensing agreements whereby the OEM licenses Adobe's proprietary software for redistribution to the OEM's end-user customers are recognized when the OEM ships its products incorporating Adobe's software.

Product sales comprise shrink-wrap licenses of new typeface software, and application software such as Adobe Illustrator, Adobe Type Manager and Adobe Streamline. Revenue from product sales is recognized upon shipment.

Contract revenue relates to Adobe's performance under contracts entered into with the Company's OEM licensees which normally stipulate that Adobe will provide the research and development required to adapt the Company's software products to the OEM's hardware products. Revenue on such contracts is recognized based on a modified percentage-of-completion method. The costs incurred in performing under the contracts are included in research, development and contract costs in the accompanying consolidated statements of income.

Deferred revenue comprises payments received in advance of revenue recognized on the aforementioned contracts and payments received representing royalty advances.

Direct Costs.

Direct costs comprise royalty fees payable by Adobe, that are accrued concurrent with the Company's recognition of revenue, amortization of typeface production costs, direct product costs and the costs of packaging and shipping.

Income Taxes.

The Company accounts for income taxes in accordance with SFAS No. 96. Deferred tax liabilities or assets at the end of each period are determined using the tax rate expected to be in effect when taxes are actually paid or recovered.

Investment tax credits and research and experimental tax credits are accounted for on the flow-through method.

Net Income Per Share.

Net income per share is computed based upon the weighted average number of shares of Common Stock and Common Stock Equivalents outstanding during each year. The determination of Common Stock Equivalents assumes exercise of those outstanding stock options which have a dilutive effect on earnings per share. Fully diluted earnings per share for the years ended December 1, 1989 and November 30, 1988 and 1987 were not materially different than primary earnings per share.

Foreign Operations and Currency Translation.

The functional currency of the Company's foreign operations is the U.S. dollar. Accordingly, gains and losses arising from the translation of foreign currency statements and transactions are included in determining net income. Net gains or losses from currency translation were not significant.

Reclassifications.

Certain amounts in the 1987 consolidated financial statements have been reclassified to conform with the 1989 and 1988 presentation.

NOTE 2. RECEIVABLES

A summary of receivables follows:

	1989		1988
Royalties	\$ 14,915,000	\$	11,549,000
Product sales	7,760,000		2,795,000
Interest	569,000		312,000
Other receivables	1,055,000		162,000
	<u>24,299,000</u>		<u>14,818,000</u>
Less allowance for doubtful accounts	280,000		206,000
	<u>\$ 24,019,000</u>	<u>\$</u>	<u>14,612,000</u>

NOTE 3. PROPERTY AND EQUIPMENT

A summary of property and equipment follows:

	1989		1988
Computers and peripherals	\$ 10,835,000	\$	6,866,000
Production and development equipment	1,322,000		1,322,000
Furniture and fixtures	4,191,000		3,363,000
Leasehold improvements	1,004,000		603,000
	<u>17,352,000</u>		<u>12,154,000</u>
Less accumulated depreciation and amortization	7,795,000		4,063,000
	<u>\$ 9,557,000</u>	<u>\$</u>	<u>8,091,000</u>

NOTE 4. LINE OF CREDIT

The Company has available a \$5,000,000 unsecured bank line of credit that expires on March 30, 1990. Interest on borrowings is at the bank's reference rate (prime rate).

NOTE 5. ACCRUED EXPENSES

A summary of accrued expenses follows:

	1989		1988
Rent	\$ 1,970,000	\$	1,367,000
Royalties	4,355,000		3,116,000
Officers' and employees' bonuses and commissions	1,252,000		895,000
Vacation and benefit plans	1,732,000		858,000
Accrued license fee	975,000		—
Other	5,697,000		1,926,000
	<u>\$ 15,981,000</u>	<u>\$</u>	<u>8,162,000</u>

NOTE 6. INCOME TAXES

The components of income tax expense are as follows:

	1989	1988	1987
Current:			
U.S. Federal	\$ 17,337,000	\$ 11,312,000	\$ 6,370,000
Foreign	845,000	95,000	—
State and local	5,045,000	3,255,000	1,534,000
Total current	23,227,000	14,662,000	7,904,000
Deferred:			
U.S. Federal	(1,970,000)	(44,000)	(79,000)
State and local	(110,000)	52,000	85,000
Total deferred	(2,080,000)	8,000	6,000
	\$ 21,147,000	\$ 14,670,000	\$ 7,910,000

Total income tax expense differs from the expected tax expense (computed by applying the U.S. Federal income statutory tax rates of 34% in 1989 and 1988, and the 41% weighted average rate in 1987 to income before income taxes) as follows:

	1989	1988	1987
Tax at Federal statutory rate	\$ 18,650,000	\$ 12,155,000	\$ 6,926,000
State income taxes, net of Federal benefit	3,257,000	2,183,000	955,000
Other	(760,000)	332,000	29,000
	\$ 21,147,000	\$ 14,670,000	\$ 7,910,000

In 1989 and 1988, deferred income tax represents the effect of changes in the amounts of temporary differences. For 1987, deferred income tax resulted from timing differences in the recognition of income and expense for tax and financial reporting purposes. The sources and tax effects of the temporary differences for 1989 and 1988 and timing differences for 1987 are presented below:

	1989	1988	1987
Typeface production costs	\$ (91,000)	\$ 298,000	\$ 642,000
Tax depreciation differences	(375,000)	25,000	(20,000)
State income tax deduction	(166,000)	(520,000)	(421,000)
Accruals, allowances and reserves	(401,000)	238,000	(226,000)
Deferred revenue	(962,000)	—	—
Other	(85,000)	(33,000)	31,000
	\$ (2,080,000)	\$ 8,000	\$ 6,000

NOTE 7. CAPITAL STOCK

The Company has authorized 2,000,000 shares of Preferred Stock and 50,000,000 shares of Common Stock. The Company effected two-for-one stock splits on November 15, 1988 and February 27, 1987. All references to common shares and per share amounts in the accompanying consolidated financial statements have been retroactively adjusted to reflect these stock splits.

The Company adopted an Employee Stock Purchase Plan on January 1, 1988. Under the terms of the plan, eligible employee participants purchase shares of Common Stock semiannually at the lower of 85% of the market price on either the purchase date or the offering date.

At December 1, 1989 the Company had reserved 5,000,000 shares of Common Stock for issuance under its 1984 Stock Option Plan. This plan, which was amended in 1987 to

exclude non-employee directors, provides for the granting of stock options to employees and officers at the fair market value of the Company's Common Stock at the grant date. Options granted prior to January 1, 1988 generally vest over three years: 25% of the granted options at the end of each of the first two years and 50% at the end of the third year. Options granted to employees hired subsequent to December 1, 1987 generally vest over three years: 25% at the end of the first year, 25% pro rata during the second year and 50% pro rata during the third year. Options granted to existing employees subsequent to December 31, 1987 also vest over three years: 25% pro rata during each of the first two years and 50% pro rata during the third year. All options have a five- or ten-year term. The following table summarizes option activity under this plan:

	Shares Available for Grant	Options Outstanding	
		Shares	Price per Share
Balances at November 30, 1987	981,112	1,804,798	\$.08-11.25
Increase in shares reserved	200,000	—	—
Options granted	(1,069,000)	1,069,000	12.13-22.38
Options exercised	—	(252,832)	.08-17.00
Options cancelled	75,250	(75,250)	.08-18.81
Balances at November 30, 1988	187,362	2,545,716	\$.08-22.38
Increase in shares reserved	1,000,000	—	—
Options granted	(995,250)	995,250	16.50-18.75
Options exercised	—	(315,320)	.08-20.88
Options cancelled	167,474	(167,474)	.13-28.50
Balances at December 1, 1989 (933,197 shares exercisable)	359,586	3,058,172	\$.08-21.35

During 1987 the Company adopted the Restricted Option Plan which provides for the granting of nonqualified stock options to non-employee directors and outside consultants. Option grants are limited to 5,000 shares per person in each fiscal year

and are immediately exercisable within a ten year term. The restricted options vest over three years; 25% of the granted options at the end of the first two years and 50% at the end of the third year. At December 1, 1989 30,000 options were

outstanding under this plan, of which 7,500 are vested. During 1989 the Company adopted a Restricted Stock Plan which provides for granting of restricted stock to officers and key employees. Shares issued under this plan vest annually over three years, but are considered outstanding at the time of grant as the

shareholders are entitled to dividends and voting rights. At December 1, 1989, 129,000 shares had been granted to officers and key employees 2,750 of which were vested. Compensation expense, which accrues as the shares vest, approximated \$366,000 in fiscal 1989.

NOTE 8. MAJOR CUSTOMERS

One customer accounted for 25%, 33% and 49% of Adobe's total revenue for 1989, 1988 and 1987, respectively. Receivables from this customer aggregated approximately \$5,352,000 at December 1, 1989. On November 30, 1988 this customer was also a major shareholder, owning approximately 16.4% of

the Company's common shares. During 1989, this customer sold all of its Adobe common stock in an unregistered, underwritten offering. A second customer accounted for 10% of the Company's total revenue in 1988.

NOTE 9. SUPPLEMENTARY INCOME STATEMENT INFORMATION

The following items are included in costs and expenses in the accompanying consolidated statements of income:

	1989	1988	1987
Maintenance and repairs	\$ 892,000	\$ 459,000	\$ 297,000
Depreciation	3,732,000	2,087,000	1,051,000
Amortization of typeface production costs	1,896,000	1,224,000	570,000
Royalties	12,605,000	9,634,000	3,484,000
Advertising	3,153,000	2,046,000	1,647,000

NOTE 10. COMMITMENTS

The Company has operating leases for the corporate headquarters, field sales offices and certain office equipment that expire at various dates through 1996. Rental expense for these operating leases was \$3,309,000, \$2,123,000, and \$1,064,000 during the

years ended December 1, 1989, November 30, 1988 and 1987, respectively. At December 1, 1989 future minimum lease payments under noncancellable operating leases were:

1990	\$ 4,839,000
1991	4,274,000
1992	4,107,000
1993	3,998,000
1994	3,937,000
1995 and thereafter	6,817,000
Total minimum lease payments	\$ 27,972,000

During 1988 the Company entered into capital lease agreements for computer software, furniture and equipment aggregating \$1,514,000. At December 1, 1989 future minimum lease

payments under these agreements aggregated \$915,000 and are payable over a three-year period.

To the Board of Directors and Shareholders

Adobe Systems Incorporated:

We have audited the accompanying consolidated balance sheets of Adobe Systems Incorporated and subsidiaries as of December 1, 1989 and November 30, 1988, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended December 1, 1989. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Adobe Systems Incorporated and subsidiaries, as of December 1, 1989 and November 30, 1988, and the results of their operations and their cash flows for each of the years in the three-year period ended December 1, 1989, in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK

San Jose, California
January 5, 1990

Quarterly Results of Operations

(Unaudited)

(In thousands, except per share data)

	1989, Quarter Ended				Year Ended
	Mar. 3	Jun. 2	Sep. 1	Dec. 1	Dec. 1
Revenue	\$ 25,539	\$ 28,089	\$ 30,027	\$ 37,703	\$ 121,358
Income before income taxes	11,720	12,959	14,011	16,163	54,853
Net income	6,985	7,576	9,104	10,041	33,706
Net income per share	\$.32	\$.35	\$.41	\$.48	\$ 1.55
Shares used in per share calculation	21,864	21,891	21,948	21,051	21,718
Common Stock price per share:					
High	26	30	29 ³ / ₄	25 ¹ / ₄	30
Low	19 ¹ / ₂	18 ¹ / ₂	22	14	14

	1988, Quarter Ended				Year Ended
	Feb. 29	May 31	Aug. 31	Nov. 30	Nov. 30
Revenue	\$ 14,229	\$ 18,757	\$ 25,232	\$ 25,265	\$ 83,483
Income before income taxes	5,962	7,640	10,876	11,272	35,750
Net income	3,575	4,474	6,372	6,659	21,080
Net income per share	\$.17	\$.21	\$.29	\$.31	\$.98
Shares used in per share calculation	21,268	21,428	21,606	21,741	21,496
Common Stock price per share:					
High	15 ³ / ₄	18 ¹ / ₂	20 ¹ / ₈	24 ³ / ₄	24 ³ / ₄
Low	11 ¹ / ₂	14 ¹ / ₂	17 ³ / ₈	18 ³ / ₈	11 ¹ / ₂

	1987, Quarter Ended				Year Ended
	Feb. 28	May 31	Aug. 31	Nov. 30	Nov. 30
Revenue	\$ 6,901	\$ 9,563	\$ 10,552	\$ 12,308	\$ 39,324
Income before income taxes	2,994	4,318	4,628	4,952	16,892
Net income	1,584	2,313	2,370	2,715	8,982
Net income per share	\$.08	\$.11	\$.11	\$.13	\$.43
Shares used in per share calculation	20,652	21,088	21,054	21,176	21,034
Common Stock price per share:					
High	11 ¹ / ₂	27	23 ³ / ₄	22 ¹ / ₂	27
Low	5 ⁷ / ₈	11 ³ / ₈	15 ¹ / ₈	7 ³ / ₈	5 ⁷ / ₈

The Company's stock has been traded on the NASDAQ National Market System since February 3, 1987. Prior to that the stock was traded on the NASDAQ bid and ask market since its initial public offering in August 1986. On January 10, 1990 there were 1007 holders of record of the Company's Common Stock.

All share and per share amounts have been retroactively adjusted to reflect two-for-one stock splits effective November 15, 1988 and February 27, 1987.



Standing:
*M. Bruce Nakao,
David B. Pratt,
Colleen M. Pouliot,
John E. Warnock*

Seated:
*Stephen A. MacDonald,
R. Daniel Putman,
Charles M. Geschke*

BOARD OF DIRECTORS

*John E. Warnock
Chairman of the Board
and Chief Executive Officer*

*Charles M. Geschke
Director
President and Chief Operating Officer*

*David C. Evans
Director*

*William R. Hambrecht
Director*

*L. William Krause
Director*

*Robert Sedgewick
Director*

EXECUTIVE OFFICERS

*John E. Warnock
Chairman of the Board
and Chief Executive Officer*

*Charles M. Geschke
President and Chief Operating Officer*

*Stephen A. MacDonald
Senior Vice President,
International Systems Division*

*R. Daniel Putman
Senior Vice President,
North American Systems Division*

*M. Bruce Nakao
Vice President Finance and Administration,
Chief Financial Officer,
Treasurer and Assistant Secretary*

*David B. Pratt
Vice President and General Manager,
Application Products Division*

*Colleen M. Pouliot
Associate General Counsel
and Secretary*

LEGAL COUNSEL
*Ware & Freidenrich,
A Professional Corporation
Palo Alto, California*

TRANSFER AGENT/REGISTRAR
*Manufacturers Hanover Trust Company
San Francisco, California*

STOCK EXCHANGE LISTING
*NASDAQ National Market System
Ticker Symbol ADBE*

INDEPENDENT ACCOUNTANTS
*KPMG Peat Marwick
San Jose, California*

FORM 10-K
A copy of the company's Annual Report to the Securities and Exchange Commission (Form 10-K) is available free of charge by writing or calling the Finance Department, Adobe Systems Incorporated, 1585 Charleston Road, P.O. Box 7900, Mountain View, California 94039-7900 or (415) 961-4400.

ANNUAL MEETING
The company's Annual Meeting of Shareholders will be held at 1:30 p.m. on Wednesday, March 21, 1990, at the Stanford Park Hotel, in Menlo Park, California.

