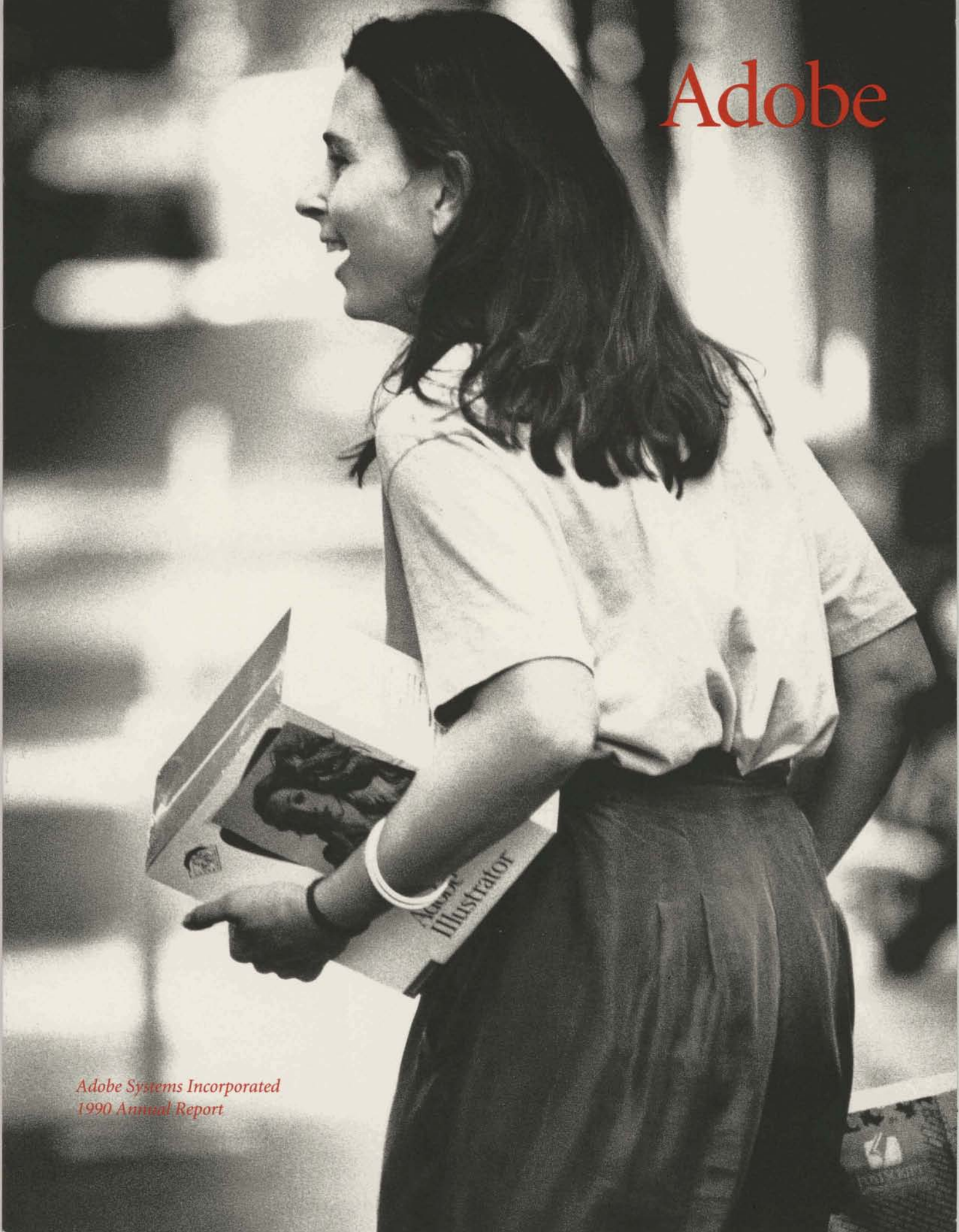
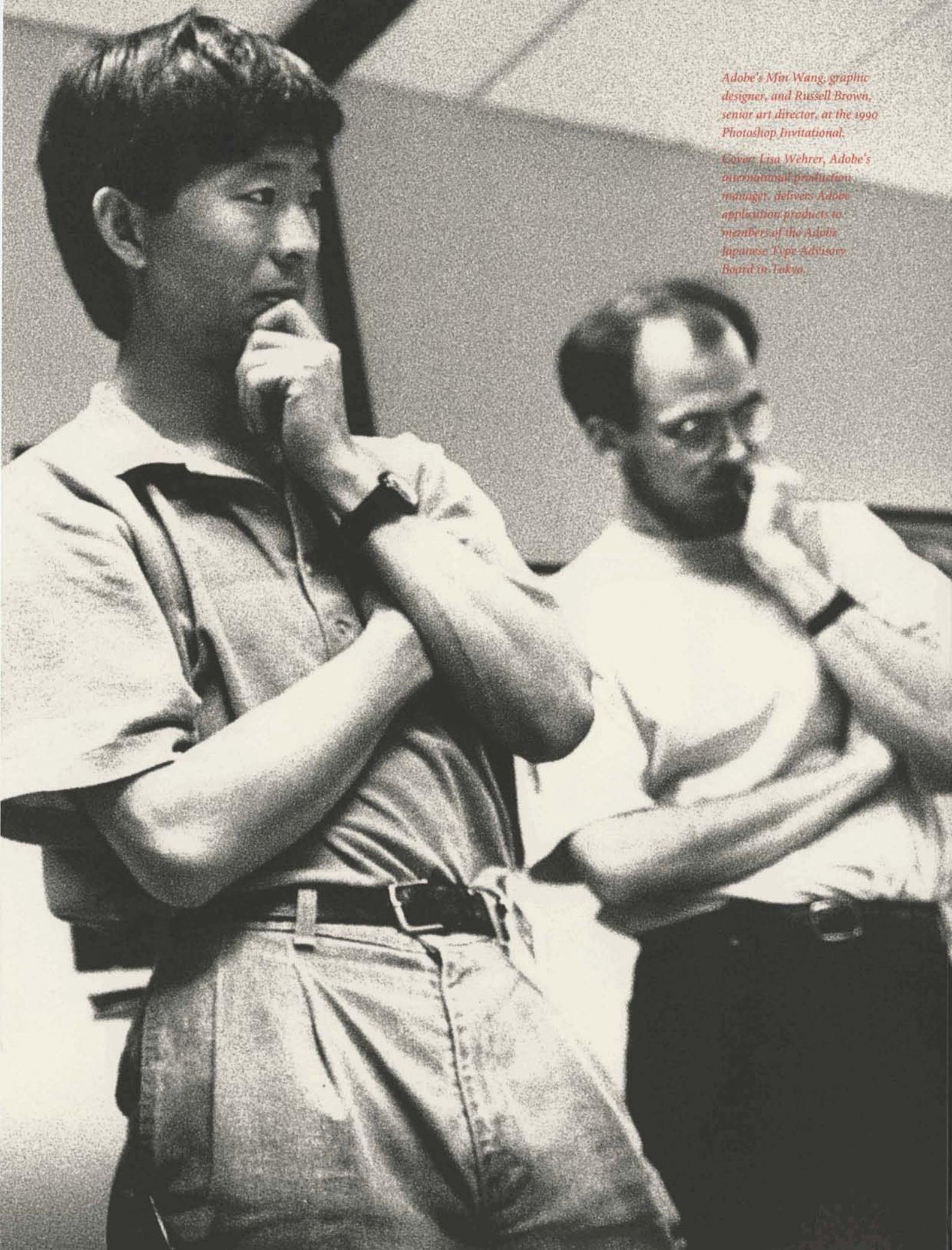
Adobe



Adobe Systems Incorporated
1990 Annual Report



Adobe's Min Wang, graphic designer, and Russell Brown, senior art director, at the 1990 Photoshop Invitational.

Cover: Lisa Wehrer, Adobe's international production manager, delivers Adobe application products to members of the Adobe Japanese Type Advisory Board in Tokyo.

Corporate Profile

Adobe Systems develops, markets and supports computer software that enables users to create, visualize, print and communicate all forms of electronic documents.

Financial Highlights

Fiscal Year Ended *(in thousands except per share data)*	Nov. 30, 1990	Dec. 1, 1989	Nov. 30, 1988	Nov. 30, 1987	Nov. 30, 1986
Revenue	$168,730	$121,358	$83,483	$39,324	$16,055
Income before income taxes	66,291	54,853	35,750	16,892	7,220
Net income	40,070	33,706	21,080	8,982	3,586
Net income per share	1.83	1.55	.98	.43	.19
Working capital	72,090	43,245	32,525	17,543	11,151
Total assets	145,701	94,139	65,460	32,302	20,016
Shareholders' equity	107,800	58,825	44,297	23,525	13,719
Dividends declared per share	.24	.20	.12	—	—

LETTER *to* SHARE HOLDERS

JANUARY 8, 1991

In 1990, Adobe demonstrated that its growing technology base yields innovative products that serve the needs of a wide range of users. These products all contributed revenue to conclude a successful year.

We are pleased to report that our revenue was $168,730,000 in 1990 compared to $121,358,000 in fiscal 1989. Our net income was $40,070,000 compared to $33,706,000 and earnings per common share were $1.83 compared to $1.55 for 1989. All of these results represent record levels for the company.

We finished the year in a very strong financial position with nearly $70,000,000 in cash and short-term investments while financing two company acquisitions with cash during 1990. We continued to maintain a conservative balance sheet with virtually no long-term debt. We also paid a cash dividend on our common stock each quarter of $.06 per common share.

In the field of electronic printing, Adobe's OEMs are shipping more than 120 different PostScript™ devices. These devices range from inexpensive black-and-white laser printers to sophisticated imagesetters used for the most demanding color work. Our development of PostScript Level 2 software in 1990 will yield printers in the future that will maintain the current position of the PostScript language as a strong, functional standard. As prices of printer components have dropped, so have prices of PostScript printers. In 1990, five printers had a retail price lower than $3,000. We expect this trend to continue, bringing PostScript software to a wider and wider base of users.

During the year, an increasing number of companies found that PostScript-based systems solve many of their document creation and communication problems. These companies are standardizing on PostScript language solutions for their printing and communication needs.

A major portion of Adobe's business is providing the highest-

JOHN E. WARNOCK

CHARLES M. GESCHKE

quality typefaces to the document-creation market. In 1990 the installed base of typefaces from Adobe exceeded 40 million. We acquired BluePoint Technologies, and are using its technology to develop a microprocessor that creates type in our Type 1 format. Earlier in the year, our Type 1 format received a crucial endorsement from IBM, which announced it would make the format a standard on a wide range of its computer systems.

Our application software products, such as Adobe Photoshop™ and Adobe Illustrator™ 3.0, continue to reinforce our leadership position in the business of creating and printing documents. We added several complementary products to our product line by acquiring Emerald City Software in 1990. To support our application products, we expanded our international presence by enlarging our Tokyo and London offices and opening an office in Munich to supplement our European headquarters in Amsterdam.

As it has each year since its inception, Adobe in 1990 had a very successful year by any measure. We are extremely proud of our organization and its 500 outstanding employees. They made 1990 a year of achievement and success for Adobe and we believe they will continue to do so for years to come.

Sincerely,

John E. Warnock

Chairman of the Board, Chief Executive Officer

Charles M. Geschke

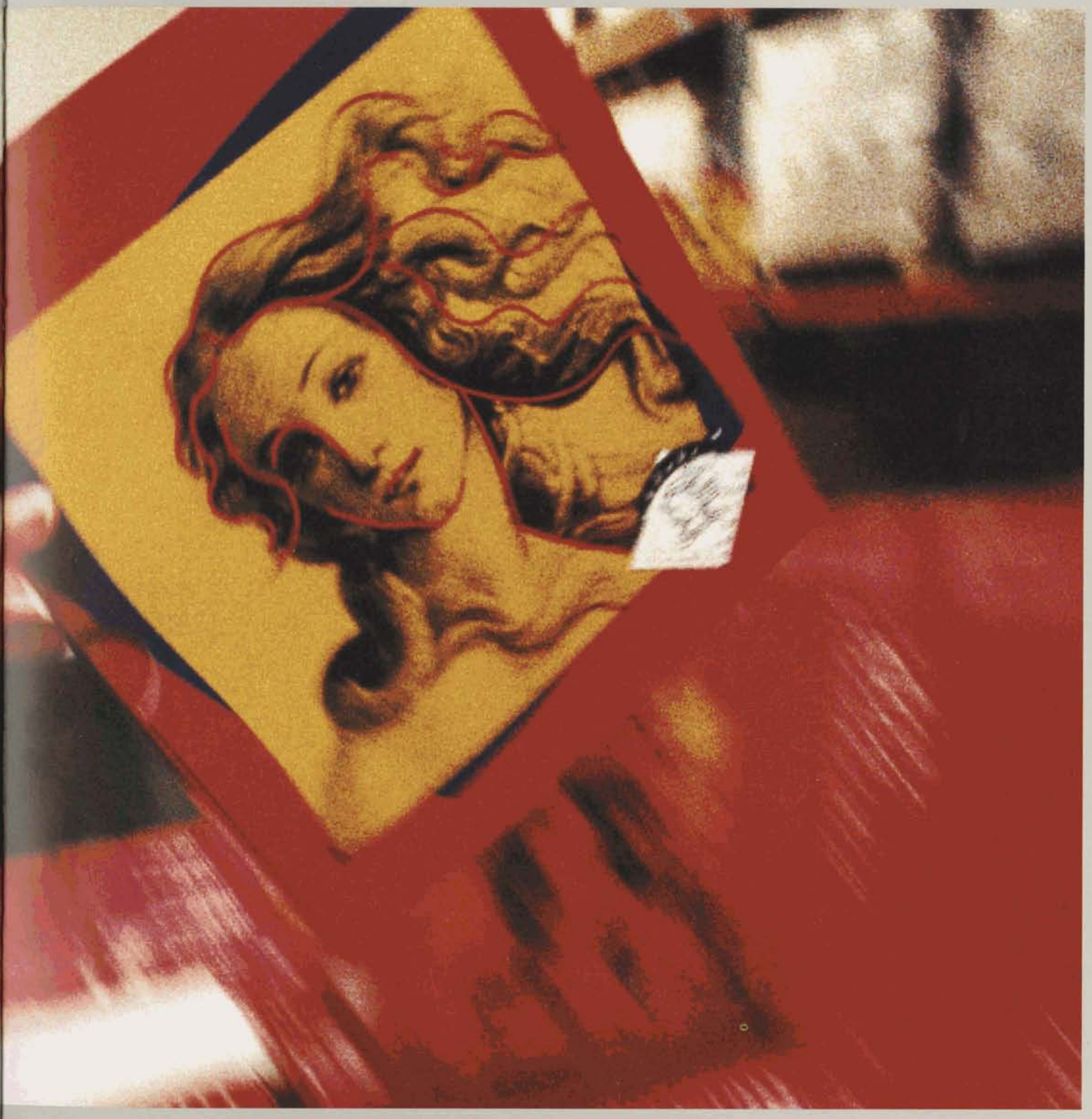
President and Chief Operating Officer

Adobe Systems: Helping Fulfill the Promise of Computers

There is virtually unanimous agreement within the computer industry that turning computers into better communication tools is critical to the industry's future success. Users are demanding it, and fulfilling the promise of computers as productivity tools requires it. As a result, the handful of companies most directly involved in making that happen are charting the course for the industry's future and are creating the most exciting, most influential, most eagerly anticipated products. They are at the very center of the whirl of activity in research, engineering and marketing that characterizes today's computer industry. Adobe Systems is one of those companies.

Adobe finished 1990 positioned more firmly than ever as an industry leader in applying advanced technology and creating innovative products for computerized visual communication. Reviewing the range and significance of Adobe's 1990 announcements, the authoritative *Seybold Report on Desktop Publishing* spoke for the majority of observers when it said, "Adobe is clearly working hard to maintain its leadership in PostScript implementations and its position as the company that sets the PostScript standard....We think that Adobe has done exactly what it had to do in order to maintain its initiative."

Setting the PostScript standard puts Adobe in a leadership role because PostScript language technology is the foundation for the industry's move toward visual computing. The number and size of companies making that move shows how strongly the industry believes Adobe and its technology represent the path to the future and the best way to turn computers from calculating machines into the communication devices users want them to be.



In 1990, Adobe introduced Adobe Illustrator 3.0, a new version of the breakthrough product that brought professional-quality graphic illustration capabilities to the desktop and stimulated sales of PostScript output devices.



EXTEN

The PostScript Language Technology Advantage

Adobe in 1990 extended the advantage its technology offers users, manufacturers and developers by revising the PostScript language, developing leading-edge technology in several areas, and enhancing its products.

The Next Generation of the PostScript Language

Since introducing the PostScript language in 1985, Adobe has been continuously enhancing it, publishing extensions for color, large character sets for Asian languages, and the Display PostScript™ system. In 1990 the company announced PostScript Level 2, the next generation of the page description language that has become the de facto industry standard.

PostScript Level 2 enhances the language by incorporating the latest in imaging technology while ensuring it remains a single, unified standard. It contains a number of performance enhancements, is easier for software developers to use, and adds important new functionality.

PostScript Level 2 gives developers and users access to features they will demand in future devices, including device-independent color, improved performance for printer output and screen display, and the ability to handle large character sets. "PostScript Level 2 ," says Adobe Chairman and CEO John Warnock, "eliminates many printing and publishing problems by defining the language that, for years and years, will give developers and manufacturers a stable platform upon which to build innovative new applications and devices."

By consolidating enhancements in PostScript Level 2, Adobe ensures that users can continue to count on quality and compatibility from its PostScript products. For that reason, comments a research report by the industry research firm BIS CAP International, "... PostScript Level 2 is a much more universal product than Level 1 ever was—and hence that much stronger as a standard, since

(continued)



N D I N G

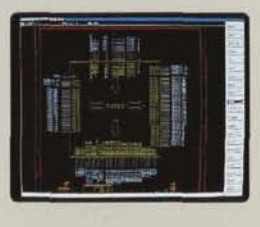
"...PostScript Level 2 is a much more universal product than Level 1 ever was—and hence that much stronger as a standard, since each limitation removed may be a new market opened. Adobe makes it clear that this process of universalization will continue."

—BIS CAP International

At its first Developers Conference, held in June in San Jose, California, Adobe brought together 500 software developers and hardware manufacturers to announce new technology and discuss how all parties could work together to continue delivering superior products. The theme of the three-day conference, "Extending the PostScript Advantage," was reinforced by the announcement of PostScript Level 2 and of licensing agreements with Xerox and Kodak.

Adobe's Hardware Business

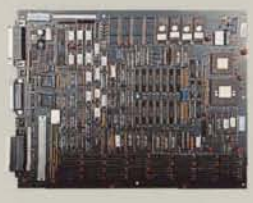
1 *Adobe engineers design the way the microprocessor and custom chips will work together on the board.*



2 *Final controller board design is printed and sent to board manufacturer.*

3 *Board manufacturer creates prototypes of the board.*

4 *Adobe adds components, some containing PostScript software and fonts, to the board.*



5 *OEM customer uses the production model of the board as the "brain" of a PostScript output device.*

each limitation removed may be a new market opened. Adobe makes it clear that this process of universalization will continue."

Enhancing Performance with Software and Hardware

One request always at the top of users' wish lists, no matter what the hardware or software product in question, is increased performance. Users of PostScript devices are no different; in fact, many of them are professional communicators whose publishing applications are among the most demanding in business computing. To meet their requests, Adobe is using both software and hardware to increase the performance of PostScript devices. PostScript Level 2 software from Adobe is a key component of the software solution; new controllers, which are the computers that control a printer, are the key hardware solution.

Adobe does not manufacture or sell printer controllers; it does, however, design, prototype and test new controllers and then license these designs to original equipment manufacturers (OEMs). "Our OEM customers count on us to be a one-stop shopping location for all their PostScript language technology," says Adobe President and COO Chuck Geschke.

In 1990 the company developed new controllers based on the latest RISC (reduced instruction set computing) technology to take advantage of the speed and processing power of RISC microprocessors. These include Emerald, the company's highest-performance controller, based on the MIPS R3000 RISC chip. Emerald can process PostScript language files several times faster than earlier generations of Adobe controllers.

Said Paul McGarrell, chairman of Autologic, Incorporated and group vice president of Volt Information Sciences, Inc., which sells high-end imagesetters based on Adobe's Emerald controller, "Our customers liked their imagesetters based on a previous Adobe controller design, but wanted a higher-speed product that would be compatible with their existing systems. Customer acceptance of our Emerald-based imagesetter can be measured by the fact that we have already had to increase our production rate twice."

Finding Silicon-based Solutions

As a company with expertise in both software and hardware, Adobe is an innovator in developing hardware approaches to performing tasks previously performed by software, such as increasing the speed at which digital type is created for display and printing.

Adobe is developing a microprocessor that specializes in creating type using Adobe's Type 1 format. Adobe plans to design

Sue Thexton, national distribution manager for Adobe Systems U.K. Ltd., and Christina Liberman, Adobe's corporate communications manager for Europe (holding award), accept one of the awards presented to Adobe at the MacUser/U.K. annual awards ceremony. Adobe Photoshop was named Best Graphics Product of the Year, and ATM™–Macintosh Version won Best Type Software and the Platinum Award for Best Product of the Year.

the chip into controllers and offer it to OEM customers as an option to increase the speed of text printing. The technology will also be attractive to manufacturers for a variety of other display and printing applications.

Rewriting Two Best-Sellers

Adobe's application products all demonstrate the power of the PostScript language, but none as completely as Adobe Illustrator, one of the best-selling illustration programs for the Macintosh™.

"ATM for the Macintosh has been one of the most successful products we've ever carried."
—Peter Godfrey, president, MacWarehouse

A breakthrough product when originally introduced in 1987, Adobe Illustrator was the first PostScript application program to integrate professional-quality graphic illustration capabilities with the high level of productivity offered by powerful desktop computers.

In 1990, Adobe introduced a new version of the program, Adobe Illustrator 3.0, that features advanced text-handling capabilities, graphics and charting tools, and a new, easy-to-use interface. In its review of the new product, *MacWorld* magazine said: "Here is an amazing application, even by Macintosh standards, packed with powerful capabilities that make it—without a doubt—the best design package currently available."

In August 1990, less than a year after it introduced Adobe Type Manager™ (ATM) 1.0, the company shipped ATM version 2.0. In its first year, the ATM program sold extremely well and gave users who don't have PostScript printers access to Adobe outline font software, thereby giving them the ability to work with high-quality type for display and printing. The product won five awards from industry trade publications, including Product of the Year from *InfoWorld* magazine in the Macintosh Graphics Software category and Most Significant Software Product from *MacUser* magazine. The new version is more than twice as fast as the previous version, produces even sharper type, and is easier to use.

"ATM for the Macintosh has been one of the most successful products we've ever carried," said Peter Godfrey, president of MacWarehouse, a leading retailer of Macintosh software. "It was far and away our best-selling Mac utility software program in 1990, and judging from the response so far, I expect a very high percentage of users to upgrade to Version 2.0."

New Devices Showcase PostScript Software's Versatility

"The PostScript language, we believe, will become the primary *lingua franca* of messages sent via interpersonal computing applications."

— Steve Jobs, speaking at the Adobe Developers Conference

"I often describe Adobe to outsiders as a company that's in the matchmaking business," says Chuck Geschke. "We try to understand what output devices users are looking for, then we work with OEMs to bring those devices to market and we encourage ISVs [independent software vendors] to develop applications that take advantage of them."

As the number of Adobe OEMs has grown, so has the range of PostScript output devices, which means users can now find a device to meet virtually any need. Included in the more than 120 shipping devices are black-and-white printers, imagesetters, and color printers for both roman-language and Japanese-language markets; film recorders; Display PostScript systems; video systems; software raster image processors (RIPs); and a mainframe interpreter.

Products introduced in 1990 by Adobe's OEMs enhance the output from a variety of applications and make PostScript software available to new users on new platforms. The products also open up new markets and expand existing ones, including markets for lower priced printers, workstation displays, video, and demand publishing.

PostScript Printers More Cost-Effective Than Ever

As technology has advanced, the prices of PostScript printers have been steadily dropping. The street price of PostScript printers from several of the most respected manufacturers in the business is now below $2,000. Printers from nine manufacturers have a retail price of less than $3,500, which means the power of

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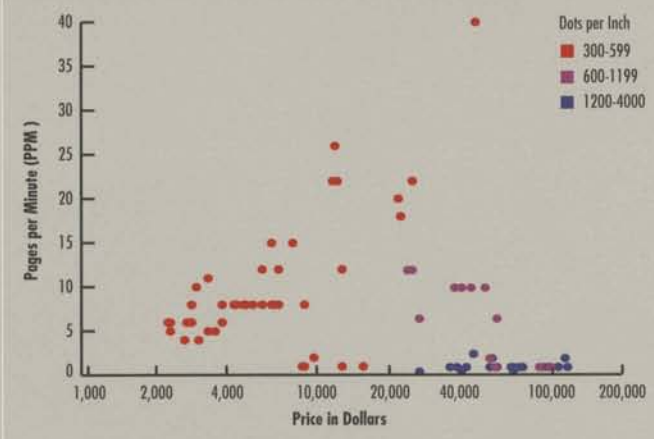
PostScript Devices Offer Range of Price/Performance Options



Adobe OEMs are currently shipping more than 120 PostScript devices, offering users a wide range of choices in price, speed, resolution, features and output technologies.

Innovative Technology, Innovative Business Model

After Adobe's founders had answered the major technical questions they encountered in developing PostScript software and were ready to turn it into a product, they had to answer a fundamental business question: What would be the best way to structure a company based on the new product?

Their original idea was to build turnkey systems for text creation and production. But two industry experts who saw an early demonstration of Adobe's technology, C. Gordon Bell, then vice president of engineering at Digital Equipment Corporation, and Steve Jobs, then chairman of Apple Computer, had a better idea.

They suggested Adobe become a software company and license its PostScript interpreter software to OEMs, who would incorporate it into their output devices and pay Adobe on a royalty basis.

That plan, refined and expanded, is Adobe's business model. "Adobe's business plan is a case study in how to structure an intellectual property business," said Steve Jobs recently. "Adobe developed a solution to a widespread technology problem, licensed that software solution to well-respected OEMs, then worked with them as a partner to successfully develop and market products that created a whole new market."

The evolution of the model, original from the outset, continues to be unique and to offer Adobe distinct advantages. Aspects of the model include:

EXTENSIVE PARTNERING. Adobe's practice of forming business partnerships with industry leaders is similar to the approach of many successful technology companies. At the end of 1990, Adobe had a list of OEM partners that includes the most respected names in the computing and electronic printing and publishing industries.

APPLICATION PRODUCTS STRATEGY. Adobe's innovative application products provide a significant revenue stream while serving to demonstrate the power of PostScript language technology, thereby increasing demand for output devices containing a PostScript interpreter licensed from Adobe.

MANAGER OF AN OPEN STANDARD. Adobe established the PostScript language as the standard for electronic printing and publishing, and benefits from that accomplishment. But the standard is an open one—the language has been published and anyone can develop products based upon it. The PostScript language standard is thus in line with the current strong preference for open systems and standards that enable vendors and users to benefit from products that work together.

A DYNAMIC TECHNOLOGY. Adobe and its OEM and ISV partners continue to find new applications for PostScript language technology, including screen imaging, multimedia, video and fax. Those new applications spark the development of new products, which open up new markets. In addition, Adobe continues to extend the capabilities of its core PostScript language technology.

PARTNERS

AGFA
APPLE COMPUTER
AUTOLOGIC
BIRMY GRAPHICS
CANON
DATAPRODUCTS
DIGITAL EQUIPMENT CORP.
DIGITAL F/X
DUPONT
KODAK
FUJITSU
GCC TECHNOLOGIES
GESTETNER LASERS
HEWLETT-PACKARD
IBM
LINOTYPE
MATSUSHITA
MONOTYPE
NEC
NEXT
OCÉ GRAPHICS
OKIDATA
OPTRONICS
QMS
QUME
RICOH
SCANGRAPHIC
SEIKO EPSON
SCITEX
SILICON GRAPHICS
TEXAS INSTRUMENTS
VARITYPER
WANG LABS
XEROX

In announcing the new Adobe/ Xerox partnership at the Adobe Developers Conference, Bill Lowe, executive vice president of development and manufacturing for Xerox, said the agreement reflects Xerox's determination "to embrace industry standards and form alliances with industry leaders."

PostScript printing is now well within the reach of individuals and small business buyers.

As the price of PostScript printers drops, their installed base grows, which makes the PostScript language more and more effective as a carrier of information among computers—a role that helps users be more productive and communicate more easily and effectively.

A Growing Standard for Displays

Perfect WYSIWYG, or "What You See Is What You Get" correspondence between computer display and printer, has been described as the most frequently broken promise in computer history. But systems that create screen images with the Display PostScript system and print them on PostScript printers give users the most precise correspondence possible between display and output, or the truest WYSIWYG effect current technology can achieve.

In the world of UNIX™ computing platforms, the Display PostScript system is becoming the standard means of describing the appearance of text and graphics, making it easier for software developers to create products that work across multiple environments.

Display PostScript software is now shipping with all VMS- and Ultrix-based workstations from Digital Equipment Corporation, RS6000 systems from IBM, and workstations from NeXT, Inc., including NeXTdimension, a system featuring a 32-bit color display capable of producing more than 16 million colors. In addition, it will soon be shipping with IRIS workstations from Silicon Graphics, Inc.

Envisioning the future role of PostScript and Display PostScript software, Steve Jobs, founder and CEO of NeXT, Inc., said at the Adobe Developers Conference, "I think there's going to be a giant new application area called interpersonal computing. There's a tremendous opportunity to create a lot of breakthrough applications for this area—applications as revolutionary as spreadsheets and desktop publishing were. And the PostScript language, we believe, will become the primary *lingua franca* of the messages sent via interpersonal computing applications."

Prime Time PostScript

PostScript software entered the realm of video communications for the first time in 1990. Digital F/X, Inc. introduced Video F/X, the first product to use PostScript software to overlay graphics created with Macintosh computers onto videotape. At the time of the announcement, John Warnock called Video F/X the first link between the Macintosh, with its powerful tools for creating device-independent PostScript graphics, and the world of video communication.

PostScript Software in Demand

Businesses would like to avoid incurring production and warehousing costs for large print runs of lengthy, complex documents such as technical manuals. The solution is to print such documents just before they're needed and to print only enough to fill the immediate need.

The way to do that is with "on-demand publishing," and recent product announcements, including one from Xerox, an Adobe OEM announced in 1990, make it possible. The new products are high-speed devices that take advantage of the device-independence of the PostScript language to enable users to pull together and print documents that combine elements from several sources.

The Xerox™ DocuTech Production Publisher is the first PostScript printer with the speed, resolution and paper handling features required for success in the high-end, high-volume, in-house publishing market.

According to Bill Lowe, executive vice president of development and manufacturing for Xerox, the company's decision to offer a PostScript interpreter with the DocuTech Publisher reflects Xerox's determination "to embrace industry standards and form alliances with industry leaders." ❁

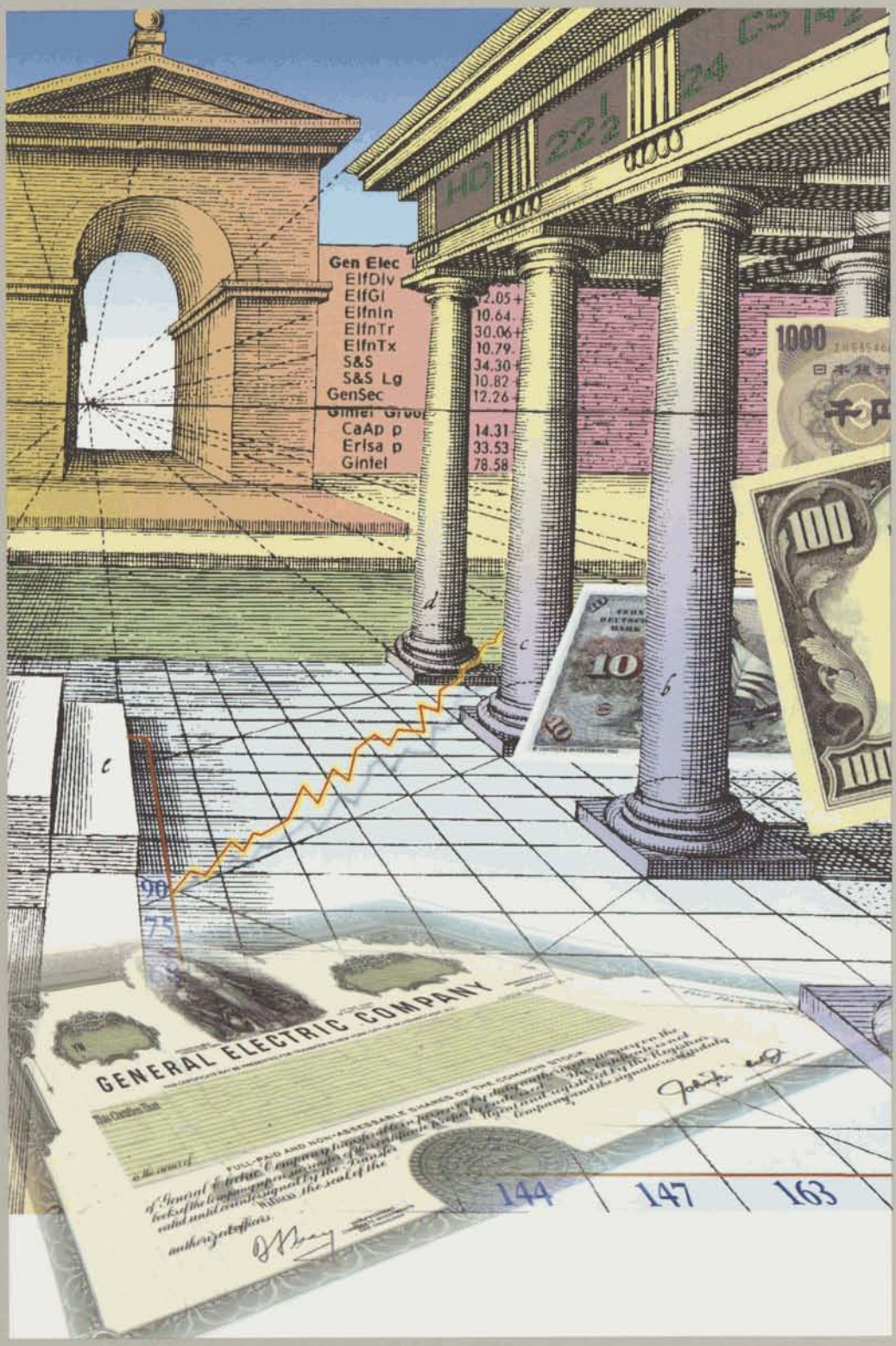
The Origin of the PostScript Language

Perhaps the single most important benefit of the PostScript language, and a principal reason why it has been adopted by so many manufacturers and embraced by so many users, is device independence. Here's John Warnock on why the PostScript language is device independent.

"One reason the PostScript language works as well as it does is that it was first written to solve a unique, difficult problem," he says. "PostScript had its first incarnation at a company called Evans & Sutherland in 1976. They had accepted a contract to build a visual simulator of New York Harbor for the Maritime Academy in New York. The simulator would be used to train pilots to take ships in and out of New York Harbor. Evans & Sutherland had contracted to provide the system.

"The problem was, we had a very tight deadline and we had to design the database at the same time others were building the hardware. Since we had no idea what the hardware or its characteristics would be, we needed to build a software system that was isolated from the hardware and, with minor modifications, could essentially run on any hardware system that was developed. The solution was an interpretive language called the Design System. The concept of device independence in that first system, which the PostScript language also supports, has become a more valuable attribute than we could have imagined." ❁

Charlie Sosinski, Adobe hardware engineer, prepares to insert a prototype Adobe controller board into a printer for testing.



Adobe introduced significant new products for PC users in 1990, including ATM–Windows Version and the PostScript Cartridge. Pictured at right is Rudy Batties, Adobe's product marketing manager for Systems Division PC products.

(Left) New York artist Marc Yankus used Adobe Photoshop to create this image for the cover of the 1989 annual report for General Electric's investments division.

New Adobe Application Products Introduce PostScript to New Users

Adobe's Application Products Division (APD) develops and markets typeface and application software for graphic arts and business customers. Adobe type packages and applications help expand the market for PostScript printers, imagesetters and other output devices.

APD introduced new products in 1990 that help users in a variety of settings communicate more effectively by giving them access to PostScript software and its ability to create high-quality type and graphics.

PC Users Learn PostScript

PostScript language technology achieved its initial success in the Macintosh world. As the first graphic computer, the Macintosh was the ideal platform to demonstrate the capabilities of the PostScript language. Coupled with Apple's LaserWriter™, the Macintosh helped start the computer publishing revolution.

PCs have also become platforms for computer publishing, and now have graphic capabilities approaching those of the Macintosh. With the recent rise in the use of graphical user interfaces, PC users have become increasingly aware of the role high-quality type and graphics can play in creating authoritative, effective communications. In an article entitled "Making Sense of the Computer Publishing Revolution," Jonathan Seybold lists "rich graphic communication" as one of the 10 premises upon which the revolution is based. He says, "In general, we think it is clear that, across the board, as better tools become available, more people are using more graphics to communicate information. This observation extends to dramatic increases in the use of type and typography, graphics and graphic effects, and, of course, color."

"I essentially bought my computer so I could use Adobe Photoshop. It allows me to create effects I couldn't create with traditional methods."

—Marc Yankus, illustrator

That trend clearly favors Adobe and positions the company to be a key supplier of type and graphics products for PC users. New, lower-cost PostScript printers are already selling well in the

PC world, and PC products Adobe introduced in 1990 such as ATM–Windows Version and the PostScript Cartridge bring new capabilities to PC users.

ATM–Windows Version is the PC version of Adobe Type Manager, one of the company's most successful retail software products ever. ATM–Windows gives Windows PC users access to smooth, high-quality text for displays and enables them to print sharp text on either a PostScript or non-PostScript printer.

In naming ATM–Windows one of its Most Valuable Products for 1990, *PC/Computing* magazine said, "ATM is a real product that solves a real problem elegantly and effectively. Our eyes are grateful."

The PostScript Cartridge, another PC product introduced in 1990, has a substantial market opportunity. That market is the two-million-plus installed base of HP's LaserJet™ Series II printers. The cartridge is the first retail PostScript interpreter offered directly from Adobe. It turns LaserJet II printers into PostScript printers and gives their owners access to all the benefits of PostScript printing, including access to the nearly 1,000 fonts in the Adobe™ Type Library. Adobe's cartridge complements Hewlett-Packard's PostScript cartridge by making available a PostScript printing option for the installed base of LaserJet II printers. Taken together, the cartridges make PostScript printing available to any owner of an HP LaserJet printer.

Among the companies that have standardized on Adobe's PostScript Cartridge as an upgrade solution for their LaserJet IIs

To introduce influential artists, designers and photographers to its products, Adobe invites them to spend three days on-site learning how to use such tools as Adobe Illustrator or Adobe Photoshop.

Right: (Left to right) Dean Dapkus, graphic designer, Adobe Systems; Rick Smolan, photographer, originator of the Day in the Life *book series; Judy Dater, photographer and teacher.*

Below: Sam Merrell of Synthetic Imaging (left) and Steven Guttman, Adobe product marketing manager for Adobe Photoshop, at the 1990 Photoshop Invitational. Adobe Photoshop won several industry awards in 1990, including Software Product of the Year from MacUser *magazine and Product of the Year from* Personal Publishing *magazine.*

is Martin Marietta Corporation, a diversified, $5.8 billion firm active in aerospace, electronics, energy, materials and information management. "We standardized on Adobe's PostScript Cartridge after conducting our own performance and capabilities studies on it," says Alan Soucy, manager of computing standards for Martin Marietta. "Because cross-platform support is critical for us, we had already standardized on PostScript devices, and the cartridge is a natural extension of that strategy."

Image Enhancement Comes to the Desktop

The PostScript language was designed to work with type, line art and images. The Adobe Type Library and Adobe Illustrator software create and edit the first two, while Adobe Photoshop, a professional-quality image enhancement program, handles photographic images. The capabilities Adobe Photoshop software gives users to create, manipulate and separate images were previously available only on very expensive, proprietary photo retouching and manipulation systems.

First shipped in February 1990, the product was an instant success with artists, graphic designers and computer publishers. "I essentially bought my computer so I could use Adobe Photoshop," says New York illustrator Marc Yankus (see illustration on page 14). "It allows me to create effects I couldn't create with traditional methods. It's such a perfect fit for my work that it seems as if someone developed it especially for a collage artist like me."

In naming Adobe Photoshop "Product of the Year," *Personal Publishing* magazine said, "[Adobe] Photoshop allows desktop artists to do color work that rivals [that of high-end prepress systems]. More important, they can do it themselves, without the aid of a trained operator who charges hundreds of dollars an hour."

Developing and Acquiring Application Products

In addition to developing applications, Adobe added several applications to its product line in 1990 by acquiring Emerald City Software. The acquisition brings Adobe immediate benefits, in the form of Emerald City's complementary product line, as well as long-term ones, in the form of new technology for future products. Emerald City's PostScript-language-based typographic products and development tools have now been added to the Adobe product line. Among them are Adobe TypeAlign™, the award-winning type-styling program; Smart Art™, a collection of PostScript language typographic and graphic effects; and Adobe Type Reunion™, a utility program that organizes the Macintosh font menu.

Adobe's Application Product Line

Adobe's application products demonstrate the power of the PostScript language and increase the demand for PostScript output devices.

Adobe's TYPE TECHNOLOGY RECEIVES UNPARALLELED SUPPORT

Typography, for centuries a specialized subject of interest primarily to publishing and design professionals, has become a topic of interest to virtually everyone who uses a computer. That's partly because even casual users now have access to high-quality typefaces and can use them to communicate with more authority and style. As a banner proclaimed at the Type 90 Conference: "By the year 2000, everyone will have a favorite typeface."

But on another level, the interest stems from the status of type as a critical component of virtually every computer-generated document. Users want the ability to handle and exchange formatted documents in a consistent, transparent fashion. To do that, they need to be able to create documents on any computer and be assured the documents will print on any output device; in other words, they need an industry-standard font format.

The Type 1 format from Adobe is that standard—it brought high-quality type to the desktop, and has been adopted by users and the leading manufacturers of computer systems and output devices.

The choice of Adobe's Type 1 font format as the industry standard was reinforced in 1990 when IBM announced it would use Adobe technology across IBM™ Systems Application Architecture (SAA) compliant operating systems. The IBM products grouped under the SAA umbrella include PCs, the AS/400 minicomputer family and 370-series mainframes. IBM's implementation of Adobe font technology across SAA operating systems will be compatible with IBM's AIX™ operating system implementation of Adobe's Display PostScript system. IBM has also incorporated ATM font rendering technology into Release 1.3 of its OS/2™ operating system.

Adobe strengthened its relationship with the Japanese graphic arts and type communities in 1990 by forming the Japanese Type Advisory Board. The board will advise Adobe on key trends and requirements unique to Japanese design and typography. Four distinguished Japanese designers and typographers make up the board. Pictured here is internationally known designer Takenobu Igarashi.

Just About Everyone's Type

Adobe's Type 1 font format for outline fonts has become a standard because it meets the diverse needs of the widest possible range of computer users. It also brings a level of consistency to document creation and interchange that is essential to the future growth of type technology as a critical component of the computer industry.

More than 6,500 typefaces are now available from over 30 vendors in the Type 1 format. That number has helped establish and solidify the Type 1 standard, because serious users require such an extensive selection. Adobe's licensing agreements with major type vendors (see list on next page) are the source for many of the Type 1 typeface designs. Licensing designs from the major type libraries of the world, and licensing Adobe's font development tools to them, points out Chuck Geschke, has been

essential to the growth of the PostScript language standard. "You can't conduct business effectively in a marketplace with hundreds of years of tradition unless you adhere to the quality standards already well established in that market," he says.

Most major type vendors are also suppliers of imagesetters—devices for producing output at resolutions of 1,200 dots-per-inch and up for commercial reproduction. Growth in that market over the past five years, according to Graphic Arts Marketing Associates, has been astonishing—sales of imagesetters have grown to an estimated 30,000 units in 1990. Comments a BIS CAP report, "Most of this growth can be attributed directly to the effect PostScript has had on the industry: demand for imagesetting has grown enormously because PostScript has made it so much more accessible to the average user." PostScript imagesetters give users the access they want to very high resolution output. According to BIS CAP estimates, approximately two-thirds of the imagesetters sold in 1990 have PostScript printing capability.

Typeface Foundries

AGFA-COMPUGRAPHIC
ALPHA OMEGA TYPOGRAPHY
BIGELOW & HOLMES
FUNDICIÓN TYPOGRÁFICA NEUFVILLE, S.A.
INTERNATIONAL TYPEFACE CORPORATION (ITC)
LINOTYPE AG
MONOTYPE CORPORATION PLC
MORISAWA & CO., LTD.

Adding to the Library

Type is "the voice of the printed page," and Adobe understands the importance of having a library of high-quality typefaces that is large and diverse enough to enable users to express themselves in any voice that meets their communication needs. To that end, the company has made a commitment to building a Type 1 library with the best quality, quantity and variety in electronic printing and publishing.

Adobe added more than 500 typefaces to the Adobe Type Library of font software in 1990, many of them licensed from the world's most respected type suppliers. The library currently comprises nearly 1,000 faces, including several for the Japanese market.

"Adobe has done a service for electronic publishing by creating a device-independent format—the Type 1 format—and making it available as an open specification," said Vera Allen-Smith, director of Electronic Publishing Market Analysis for the industry research firm Dataquest, Inc. "The Type 1 format, supported by all major graphic environments, is the largest collection of typefaces in the same format ever assembled in the history of the printing and publishing industry. The Adobe Type Library of Type 1 faces provides an extensive choice of faces licensed from prestigious type foundries as well as Adobe's own original typeface designs."

The Adobe Originals

Adobe's original designs are the Adobe Originals™, typefaces designed specifically for electronic publishing by Adobe's staff of type experts. In its review of the Adobe Type Library, *PC Magazine* called Adobe Garamond™, one of the Adobe Originals, "the most significant advance in desktop typography since the invention of the laser printer." The Adobe Originals now include almost 100 typefaces, further ensuring the Adobe Type Library offers users the selection they need to meet their communication goals. Their popularity with users can be gauged by the fact that they are consistently among the best-selling faces in the library.

Adobe Font Folio—the entire Adobe Type Library on a hard disk—has been available to users since 1988 and has been especially useful to service bureaus and corporate computing departments that require faster printing and a large selection of Adobe typefaces. In 1990, the company announced the Adobe Font Folio CD-ROM, which gives customers over 650 typefaces on a single compact disk that can be connected directly to a Macintosh computer.

A Technology That Drives Change

Adobe's business approach has always been to develop technology and products that focus less on what computers are and more on what they can be. PostScript language technology, since its introduction, has helped make computers far more useful and has helped move them closer to their potential.

Technology and products from Adobe continue to shape several of the most important trends in the computer industry, including the use of computers as communication devices and the resulting need for standards, and the increasing use of graphics and color.

Getting Devices to Talk to Each Other

Desktop computers have been valuable tools in increasing personal productivity; but to become even more valuable, they must help organizations as a whole become more productive by improving communications within and between organizations. The PostScript language will play an increasingly larger role in helping them do that by enabling different devices to exchange information.

Most organizations in the 1990s will work with a variety of computers, including PCs, Macintoshes, UNIX workstations, minicomputers and mainframes. Users of those different computers want and need to be able to exchange information. To do so, they will need standards for information interchange, and the PostScript language and Type 1 format are poised to become such standards. As to the value such standards add, John Warnock has remarked, "Some people have said that standards stifle innovation. But that's not true in the case of the PostScript standard, which has fostered innovation and helped move the industry forward."

The PostScript language enables users to create the kind of visually complex documents that are increasingly common—documents that may include formatted pages of text and graphics and full-color images. In the future, widespread adoption of the PostScript language standard, and advances in software and hardware, promise to allow users to share such documents across platforms, applications and devices, thereby turning their computers into the communication devices they want them to be.

Graphics and Color Go Mainstream

The use of graphics in all aspects of computing is steadily increasing. Users continue to endorse the Macintosh with its graphical user interface and are adopting a similar interface for their PCs. Having discovered that graphics can communicate more universally, quickly and powerfully than words alone, they want access to more graphics on their displays and in their output.

They also want to view and print graphics in color. BIS CAP International projects that sales of color hardcopy devices will increase from 835,000 units in 1989 to 1,667,000 in 1993. Color monitors, which represented 50 percent of the market for monitors in 1987, will represent 70 percent in 1992.

Since its PostScript language technology is one of the forces driving these trends, Adobe clearly stands to benefit from them. The PostScript language helped bring about the graphical revolution and remains the most complete imaging model for graphical environments. As users demand display technology better able to accurately render graphics, better WYSIWYG between screen and printer, and device-independent color, the benefits of the PostScript language and PostScript output devices become more indispensable.

Other trends also favor Adobe's technology. The PostScript language's ability to handle images of all types makes it ideally suited to multimedia applications. Facsimile transmission of PostScript language documents, which travel without modification over existing networks, is a natural. The composite font handling capabilities in PostScript Level 2, which enables users to create and manage the large, non-Roman character sets in such languages as Japanese, make it the obvious choice as systems software for output devices targeted at the growing Asian market.

Adobe is working with Japanese companies to make high-quality design and typography available on the desktop in the Asian market. Communicating with type in Japan requires a technology able to create vertical as well as horizontal writing, create and manage very large character sets, and mix roman and Japanese type. PostScript software is ideally suited to performing all those tasks as well as creating high-quality graphics for a visually oriented society such as Japan's.

Adobe will continue to work on making its PostScript software a solution for the widest possible range of visual communications applications. After an extensive analysis of PostScript Level 2 and Adobe's strategy, the industry research firm BIS CAP International concluded:

"When the entire world is using PostScript for multimedia applications, for facsimile, for electronic publishing, and for other applications, why would anyone buy anything other than a PostScript printer, regardless of the merits of [other technologies]? Of course, it is hardly a sure thing that Adobe will actually be able to expand PostScript into a universal communication medium. But historically, there have been few companies with more vision than Adobe; perhaps if anybody can do it, Adobe can."

Adobe CEO John Warnock and Earl Wilken, associate editor of Graphic Arts Monthly, *examine images produced by Kodak's Photo CD technology. PostScript Level 2 color output devices will be able to print images created by Kodak's new photo CD technology.*

Tami Donohoe, left, customer support supervisor, and Dierdre Reidy, customer support specialist

Percentage of Revenue, Year Ended	*Nov. 30, 1990*	*Dec. 1, 1989*	*Nov. 30, 1988*	*% Change 1989 to 1990*	*% Change 1988 to 1989*
Revenue					
Royalties	62.4%	67.5%	73.8%	28.7%	32.9%
Product sales	32.7	28.6	23.1	58.8	80.0
Contract and other	4.9	3.9	3.1	73.6	84.6
Total revenue	100.0	100.0	100.0	39.0	45.4
Costs and Expenses					
Direct costs	18.0	16.0	17.6	56.0	31.9
Research, development and contract costs	12.0	11.1	8.8	50.1	84.3
Sales, marketing and customer support	24.2	22.4	25.9	50.4	25.5
General and administrative	9.0	8.0	6.8	56.4	71.4
Total costs and expenses	63.2	57.5	59.1	52.8	41.4
Operating income	36.8	42.5	40.9	20.5	51.1
Interest income	2.4	2.7	1.9	27.0	104.2
Income before income taxes	39.2	45.2	42.8	20.9	53.4
Income tax expense	15.5	17.4	17.6	24.0	44.2
Net income	23.7%	27.8%	25.2%	18.9%	59.9%

Results of Operations

Total revenue for the Company has grown rapidly during the three years ended November 30, 1990. This growth is attributable to increased royalties, increased sales of application products, and higher contract revenue.

The year-to-year increases in royalty revenue are a result of increased shipments by the Company's original equipment manufacturer (OEM) customers of products which contain the PostScript interpreter and the Display PostScript system. These products include printers, both Roman and Japanese, typesetters, imagesetters and workstations. During fiscal 1990, 40 new products containing the PostScript interpreter were introduced, and the Company received royalty revenue from 27 OEM customers, compared to 19 customers in fiscal 1989 and 13 customers in fiscal 1988.

Apple Computer remained the Company's largest customer, accounting for 23 percent of the Company's total revenue in 1990, compared with 25 percent in fiscal 1989, and 33 percent in fiscal 1988. 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 percent of the Company's total revenue in 1990 or 1989. One additional customer accounted for 10 percent 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 1989, Apple Computer sold its 16.4 percent 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 $24⅛. In September 1989, Apple Computer and Microsoft Corporation announced that Microsoft had licensed the Apple font format for use in OS/2 under Presentation Manager and that Apple had licensed Microsoft's implementation of the PostScript language, obtained as part of a Microsoft acquisition. If Apple introduces printers utilizing Microsoft's interpreter and these printers are successful, it is possible that royalty revenue to the Company from Apple could decrease over time. In 1990, the Company and Apple Computer signed a new licensing agreement. Under the terms of the agreement, the Company and Apple plan to work together to provide new products based on PostScript software from the Company and printer technology developed by Apple.

Revenue from product sales of application software has grown significantly over each of the last three years, becoming a larger percentage of the Company's total revenue. While shipments of downloadable typeface software packages have increased each year, the primary reason for the increased revenue is the introduction of new products each year. Some of the major product introductions include Adobe Streamline and Adobe Type Manager for the Macintosh, which were introduced in 1989, and Adobe Photoshop, the PostScript Cartridge for HP LaserJet II printers, Adobe Illustrator 3.0, and Adobe Type Manager–Windows Version, which were all introduced in 1990. During 1990, the Company acquired Emerald City Software, and thereby recognized revenue from licensing new products including Adobe Type Align and Adobe Type Reunion. During both 1989 and 1990, the application products business experienced a higher rate of revenue growth than the OEM royalty business. The Company expects this trend to continue.

Contract and other revenue also continued to increase on a year-to-year basis, reflecting an increase in the number of OEM contract advances, as the Company undertook new projects for new and existing OEMs. Contract revenue is recognized on a modified percentage-of-completion basis.

Direct costs include packaging, diskettes, and shipping for application products as well as royalties paid to third parties for licensing fees and royalties for typeface designs that are distributed as downloadable software packages or bundled with the PostScript interpreter. Typeface royalty expense is generally paid on a per-unit basis whereas royalty revenue can reflect volume discounts to OEMs. Therefore, direct costs as a percentage of revenue can increase as an OEM customer ships a higher unit volume of product. Direct costs have increased on a year-to-year basis reflecting the overall growth in revenue, and have increased as a percentage of revenue in 1990, partially due to volume discounts and because a higher percentage of the Company's total revenue was attributable to application products which typically have higher direct costs. In addition, during 1990, hardware products such as the PostScript Cartridge and the type cartridges were introduced which have higher direct costs than the application software products. The Company expects this trend of higher direct costs as a percentage of revenue to continue in 1991.

Research, development and contract costs have increased

during the three years ended in fiscal 1990, as a result of additional staff and facilities. The Company has added hardware and software engineers to address the technical demands of both existing customer product development as well as new customers. During 1990, the Company acquired BluePoint Technologies Incorporated, a company that designs application specific integrated circuits (ASICs) for handling type rendering. This acquisition provides the Company with new technology which may be utilized by existing and new OEMs. Engineering staff has also been added to develop and enhance the Company's application products. The Company expects research, development and contract costs to increase as a result of planned increases in the development staff to handle new products and advanced technologies.

Sales, marketing and customer support expenses which have increased over the three years ended in fiscal 1990 also increased as a percentage of sales during 1990, after a decline in 1989. The increased expenses reflect the addition of personnel to accommodate the growth in sales from existing products as well as increased activity associated with the introduction of new products. While revenue from both licensing the PostScript interpreter to OEMs and the sale of application products has grown, revenue from application products has grown more quickly. The application products business is more retail oriented, requiring a greater commitment of sales and marketing resources for advertising, merchandising, and customer support. In addition, sales and marketing staff have been added to the Company's European and Japanese offices to service international customers. The Company expects sales, marketing and customer support expenses to grow in 1991 in support of the introduction of new products as well as upgrades of existing products.

General and administrative expenses increased during the three years from 1988 through 1990. Much of the increase is attributable to personnel additions required to support the growth in the Company's business. Other factors contributing to increased expenses include legal, MIS and telecommunication costs, as well as the amortization of goodwill capitalized in conjunction with the Emerald City Software and BluePoint Technologies Incorporated acquisitions which occurred during 1990. The Company expects general and administrative expenses to increase in fiscal 1991.

Interest income of $4,116,000, $3,242,000 and $1,588,000 for the years ended November 30, 1990, December 1, 1989, and November 30, 1988, respectively, was earned on the Company's cash balances and short-term investments. The Company's cash balances and short-term investments have increased each year as its operations remain profitable and capital expenditures and other investments have been relatively modest.

The Company's 1990, 1989 and 1988 effective income tax rates were 39.6%, 38.6% and 41.0%, respectively. For an analysis of the differences between the statutory and effective income tax rates, see Note 7 to the Consolidated Financial Statements. 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.

Financial Condition

The Company's financial condition remains strong. Total assets grew to $145,701,000 at the end of 1990, compared to $94,139,000 in fiscal 1989. Working capital increased by $27,907,000 from $44,183,000 at the end of 1989 to $72,090,000 at November 30, 1990, primarily due to the growth in cash, short-term investments and receivables.

Other assets increased from $2,517,000 as of December 1, 1989 to $19,722,000 as of November 30, 1990. This increase reflects the value of the technology and goodwill resulting from the acquisitions of Emerald City Software and BluePoint Technologies during 1990, as well as additional technology and licensing agreements.

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 cash dividend was increased to $.05 per share, and was paid in each quarter of 1989. In the first quarter of 1990, the cash dividend was increased to $.06 and was paid each quarter of 1990. Management believes that the Company's capital resources, including cash generated from operations, will be sufficient to meet cash and investment requirements for the foreseeable future.

Consolidated Balance Sheets

(In thousands, except share data)

ASSETS	*Nov. 30, 1990*	*Dec. 1, 1989*
Current assets:		
Cash and cash equivalents	$ 19,481	$ 13,074
Short-term investments	50,183	36,592
Receivables	31,339	24,019
Inventory	3,995	1,507
Deferred income taxes	1,103	2,117
Other current assets	2,990	938
Total current assets	109,091	78,247
Property and equipment	12,104	9,557
Typeface production costs	4,784	3,818
Other assets	19,722	2,517
	$ 145,701	$ 94,139
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accrued expenses	$ 21,776	$ 15,981
Income taxes payable	5,841	5,854
Other payables	4,174	4,561
Deferred revenue	5,210	7,668
Total current liabilities	37,001	34,064
Capital lease obligations, less current portion	246	496
Deferred income taxes	654	754
Shareholders' equity:		
Common stock, no par value, 50,000,000 shares authorized; 20,956,697 and 20,103,835 shares issued and outstanding at November 30, 1990 and December 1, 1989, respectively	14,132	239
Retained earnings	93,672	58,593
	107,804	58,832
Less shareholder notes receivable	4	7
Total shareholders' equity	107,800	58,825
	$ 145,701	$ 94,139

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

(In thousands, except per share data)	*Years Ended*		
	Nov. 30, 1990	*Dec. 1, 1989*	*Nov. 30, 1988*
Revenue			
Royalties	$ 105,339	$ 81,877	$ 61,617
Product sales	55,123	34,719	19,286
Contract and other	8,268	4,762	2,580
Total revenue	168,730	121,358	83,483
Costs and Expenses			
Direct costs	30,307	19,421	14,719
Research, development and contract costs	20,190	13,446	7,295
Sales, marketing and customer support	40,848	27,154	21,634
General and administrative	15,210	9,726	5,673
Total costs and expenses	106,555	69,747	49,321
Operating income	62,175	51,611	34,162
Interest income	4,116	3,242	1,588
Income before income taxes	66,291	54,853	35,750
Income tax expense	26,221	21,147	14,670
Net income	$ 40,070	$ 33,706	$ 21,080
Net income per share	$ 1.83	$ 1.55	$ .98
Shares used in computing net income per share	21,923	21,718	21,496

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(In thousands, except share data)	*Common Stock* Shares	*Common Stock* Amount	*Shareholder Notes Receivable*	*Retained Earnings*	*Total Shareholders' Equity*
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 employee stock plans	—	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
Issuance of Common Stock under Stock Option Plan	725,319	5,301	—	—	5,301
Issuance of Common Stock under Employee Stock Purchase Plan	107,920	1,858	—	—	1,858
Issuance of stock under Restricted Stock Plan	135,750	—	—	—	—
Tax benefit from employee stock plans	—	6,588	—	—	6,588
Collections on shareholder notes receivable	—	—	3	—	3
Restricted stock compensation expense	—	1,274	—	—	1,274
Dividends declared at $.24 per share	—	—	—	(4,991)	(4,991)
Repurchase of Common Stock from employees	(116,127)	(1,128)	—	—	(1,128)
Net income	—	—	—	40,070	40,070
Balances as of November 30, 1990	20,956,697	$ 14,132	$ (4)	$ 93,672	$ 107,800

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands)	*Years Ended* Nov. 30, 1990	Dec. 1, 1989	Nov. 30, 1988
Cash Flows From Operating Activities			
Net income	$ 40,070	$ 33,706	$ 21,080
Adjustments to reconcile net income to net cash provided by operating activities:			
Restricted stock and stock option compensation expense	1,274	455	133
Depreciation and amortization	11,125	5,735	3,311
Deferred income taxes	914	(2,080)	8
Changes in operating assets and liabilities:			
Receivables	(7,320)	(9,407)	(7,111)
Inventory	(2,488)	(399)	(578)
Other current assets	(2,052)	(537)	(369)
Accrued expenses	3,978	7,819	5,278
Income taxes payable	6,575	4,229	1,207
Other payables	(523)	2,740	(1,213)
Deferred revenue	(2,458)	1,586	5,453
Net cash provided by operating activities	49,095	43,847	27,199
Cash Flows From Investing Activities			
Short-term investments, net	(13,591)	(14,777)	(10,544)
Purchases of property and equipment	(7,402)	(5,198)	(4,952)
Capitalized typeface production costs	(3,252)	(1,884)	(2,138)
Other assets	(5,385)	(988)	(674)
Acquisitions	(13,987)	—	(931)
Net cash used for investing activities	(43,617)	(22,847)	(19,239)
Cash Flows From Financing Activities			
Principal payments under capital lease obligations	(365)	(332)	(321)
Proceeds from issuance of Common Stock	7,162	3,307	1,192
Repurchase of Common Stock	(1,128)	(20,302)	—
Dividends paid	(4,740)	(3,960)	(1,643)
Net cash provided by (used for) financing activities	929	(21,287)	(772)
Net increase (decrease) in cash and cash equivalents	6,407	(287)	7,188
Cash and cash equivalents at beginning of year	13,074	13,361	6,173
Cash and cash equivalents at end of year	$ 19,481	$ 13,074	$ 13,361
Supplemental Disclosures			
Cash paid during the year:			
Income taxes	$ 20,095	$ 18,998	$ 13,304
Non-cash investing and financing activities:			
Acquisition of equipment under capital leases	$ —	$ —	$ 1,514
Tax benefit from employee stock plans	6,588	1,505	837
Dividends declared but not paid	1,261	1,010	827
Notes payable relating to acquisitions	1,817	—	—
Deferred taxes relating to acquisitions	1,723	—	—

See accompanying notes to consolidated financial statements.

November 30, 1990, December 1, 1989 and November 30, 1988

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, after elimination of all significant intercompany accounts and transactions. Realized and unrealized foreign exchange gains and losses, which have not been material, are included in results of operations.

CASH EQUIVALENTS. Cash equivalents consist of highly liquid money market instruments which have original maturities of three months or less at the time of acquisition.

SHORT-TERM INVESTMENTS. Short-term investments are carried at cost, which approximates market. As of November 30, 1990, 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 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 $6,145,000 and $3,859,000 accumulated amortization in 1990 and 1989, 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.

OTHER ASSETS. Other assets are stated at cost less accumulated amortization. Amortization is provided on the straight-line method over the estimated useful lives of the respective assets, generally three years for technology, ten years for goodwill and three to five years for licensing agreements.

REVENUE RECOGNITION. Royalties earned from original equipment manufacturers (OEMs) 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-wrapped licenses of new typeface software, and application software such as Adobe Illustrator, Adobe Type Manager, Adobe Photoshop and Adobe type cartridges. 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, which 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 Statement of Financial Accounting Standards (SFAS) No. 96, "Accounting for Income Taxes." 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.

Research and development tax credits are accounted for on the flow-through method.

NET INCOME PER COMMON SHARE. Net income per common share is based upon weighted average common and dilutive equivalent shares outstanding using the treasury stock method. Dilutive common equivalent shares include stock options and restricted stock. Fully diluted earnings per share for the years ended November 30, 1990, December 1, 1989, and November 30, 1988, were not materially different than primary earnings per share.

RECLASSIFICATIONS. Certain amounts in the 1989 consolidated financial statements have been reclassified to conform with the 1990 presentation.

Note 2. Receivables

A summary of receivables follows:

(In thousands)	*1990*	*1989*
Royalties	$ 18,704	$ 14,915
Product sales	10,580	7,332
Interest	815	569
Other receivables	1,674	1,483
	31,773	24,299
Less allowance for doubtful accounts	434	280
	$ 31,339	$ 24,019

The Company's concentration of credit risk in receivables is limited to dealers and distributors of hardware and software products to the retail market.

Note 3. Property and Equipment

A summary of property and equipment follows:

(In thousands)	*1990*	*1989*
Computers and peripherals	$ 16,211	$ 10,835
Production and development equipment	1,342	1,322
Furniture and fixtures	6,029	4,191
Leasehold improvements	1,172	1,004
	24,754	17,352
Less accumulated depreciation and amortization	12,650	7,795
	$ 12,104	$ 9,557

Note 4. Acquisitions and Other Assets

The Company purchased all of the outstanding shares of Emerald City Software and BluePoint Technologies Incorporated in March 1990 and June 1990, respectively. The aggregate purchase price of these acquisitions approximated $14.1 million, payable in a combination of cash and notes.

These acquisitions have been accounted for as purchases and, accordingly, the acquired assets and liabilities have been recorded at their estimated fair market values at the dates of acquisitions. The operating results are included in the accompanying consolidated statements of income from the acquisition dates.

Of the excess of purchase price over net assets acquired, $10.1 million was allocated to goodwill and the remaining $4.0 million was allocated to technology. An additional $1.7 million was allocated to goodwill as a result of establishing the related deferred tax liability in accordance with SFAS No. 96.

The effect of including the results of operations for the acquired entities during fiscal 1989 or for the periods prior to the respective acquisitions in 1990 would not be material.

A summary of the intangible assets described above, and other assets follows:

(In thousands)	*1990*	*1989*
Acquired technology and goodwill	$ 15,804	$ 931
Licensing agreements	5,182	1,200
Other	2,205	802
	23,191	2,933
Less accumulated amortization	3,469	416
	$ 19,722	$ 2,517

Note 5. Line of Credit

The Company has available a $5 million unsecured bank line of credit that expires on March 30, 1992. Interest on borrowings is at the bank's reference rate (prime rate). There were no borrowings under this line during fiscal 1990.

Note 6. Accrued Expenses

A summary of accrued expenses follows:

(In thousands)	*1990*	*1989*
Rent	$ 2,169	$ 1,970
Royalties	5,640	4,355
Officers' and employees' bonuses and commissions	1,851	1,252
Vacation and benefit plans	3,332	1,732
Marketing development funds	1,806	1,228
Notes payable	1,817	—
Other	5,161	5,444
	$ 21,776	$ 15,981

Note 7. Income Taxes

The components of income tax expense are as follows:

(In thousands)	*1990*	*1989*	*1988*
Current:			
U.S. Federal	$ 20,150	$ 17,337	$ 11,312
Foreign	851	845	95
State and local	5,669	5,045	3,255
Total current	26,670	23,227	14,662
Deferred:			
U.S. Federal	(271)	(1,970)	(44)
State and local	(178)	(110)	52
Total deferred	(449)	(2,080)	8
	$ 26,221	$ 21,147	$ 14,670

Total income tax expense differs from the expected tax expense (computed by applying the U.S.Federal income statutory tax rate of 34% to income before income taxes) as follows:

	1990	*1989*	*1988*
Tax at Federal statutory rate	$ 22,539	$ 18,650	$ 12,155
State income taxes, net of Federal benefit	3,624	3,257	2,183
Other	58	(760)	332
	$ 26,221	$ 21,147	$ 14,670

Deferred income tax expense (benefit) represents the effect of changes in the amounts of temporary differences. The sources and tax effects of the temporary differences for 1990, 1989 and 1988 are presented below:

	1990	*1989*	*1988*
Typeface production costs	$ 205	$ (91)	$ 298
Tax depreciation differences	(100)	(375)	25
State income tax deduction	196	(166)	(520)
Accruals, allowances and reserves	(339)	(401)	238
Deferred revenue	(280)	(962)	—
Tax basis differences from acquisitions	41	—	—
Other	(172)	(85)	(33)
	$ (449)	$ (2,080)	$ 8

In 1990, the Company's net deferred tax asset was adjusted to reflect deferred tax liabilities of approximately $1,700,000 for the tax effect of the temporary differences between the assigned values and the tax basis of assets related to various acquisitions, of which $1,363,000 remained as of November 30, 1990.

Note 8. Capital Stock

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

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 November 30, 1990, 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 generally vest over three years: 25% in each of the first two years and 50% in the third year. All options have a five- or ten-year term. During 1990, as a result of the acquisition of Emerald City Software, 17,443 shares were added to shares reserved. The following table summarizes option activity under this plan:

	Options Available for Grant	*Options*	*Price per Share*
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	359,586	3,058,172	.08-21.35
Increase in shares reserved	2,017,443	—	—
Options granted	(799,343)	799,343	18.75-40.00
Options exercised	—	(725,319)	.08-18.75
Options cancelled	99,480	(99,480)	6.56-40.00
Balances at November 30, 1990 (1,414,007 options exercisable)	1,677,166	3,032,716	$ .08-40.00

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 November 30, 1990, 50,000 options were outstanding under this plan, of which 17,500 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 November 30, 1990, 264,750 shares had been granted to officers and key employees, 44,833 of which were vested. Compensation expense, which accrues as the shares vest, approximated $1,274,000 in fiscal 1990.

On July 12, 1990, the Company adopted a shareholder rights plan. The plan is intended to protect shareholders from unfair or coercive takeover practices. In accordance with this plan, the Board of Directors declared a dividend distribution of one Common Stock purchase right on each outstanding share of its Common Stock held as of July 24, 1990.

Each right entitles the registered holder to purchase from the Company a share of Common Stock at $230. The rights will not be exercisable until certain events occur. The rights are redeemable by the Company and expire July 24, 2000.

Note 9. Major Customers

One customer accounted for 23%, 25% and 33% of Adobe's total revenue for 1990, 1989 and 1988, respectively. Receivables from this customer aggregated approximately $4,667,000 and $5,352,000 as of November 30, 1990 and December 1, 1989, respectively. 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 10. Supplementary Income Statement Information

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

(In thousands)	*1990*	*1989*	*1988*
Maintenance and repairs	$ 1,078	$ 892	$ 459
Depreciation and amortization	4,855	3,732	2,087
Amortization of typeface production costs	2,286	1,896	1,224
Royalties	16,898	12,605	9,634
Advertising	4,433	3,153	2,046
Amortization of technology and goodwill	3,984	107	—

Note 11. Commitments and Contingencies

The Company has operating leases for the corporate headquarters, field sales offices and certain office equipment that expire at various dates through 1996. Rent expense for these leases aggregated $4,955,000, $3,309,000 and $2,123,000 during the years ended November 30, 1990, December 1, 1989 and November 30, 1988, respectively. At November 30, 1990 future minimum lease payments under noncancellable operating leases were:

(In thousands)		
	1991	$ 5,687
	1992	5,299
	1993	4,508
	1994	4,385
	1995	4,294
	1996	3,188
	Total minimum lease payments	$ 27,361

The Company is engaged in certain legal actions arising in the ordinary course of business. The Company believes it has adequate legal defenses and believes that their ultimate outcome will not have a material adverse effect on the Company's financial position.

Independent Auditors' Report

To the Board of Directors and Shareholders of Adobe Systems Incorporated:

We have audited the accompanying consolidated balance sheets of Adobe Systems Incorporated and subsidiaries as of November 30, 1990 and December 1, 1989, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended November 30, 1990. 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 November 30, 1990 and December 1, 1989, and the results of their operations and their cash flows for each of the years in the three-year period ended November 30, 1990, in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK
San Jose, California
December 21, 1990

Quarterly Results of Operations
(Unaudited)

(In thousands, except per share data)	*1990, Quarter Ended*				*Year Ended*
	Mar. 2	*Jun. 1*	*Aug. 31*	*Nov. 30*	*Nov. 30*
Revenue	$ 37,181	$ 35,347	$ 42,832	$ 53,370	$ 168,730
Income before income taxes	17,192	12,986	16,399	19,714	66,291
Net income	10,142	7,883	10,003	12,042	40,070
Net income per share	$ .48	$ .36	$ .45	$ .55	$ 1.83
Shares used in per share calculation	21,272	22,125	22,061	21,878	21,923
Common Stock price per share:					
High	30¾	50¾	39¼	30	50¾
Low	16¼	30¼	23¼	17	16¼

	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	29¾	25¼	30
Low	19½	18½	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	15¾	18½	20⅛	24¾	24¾
Low	11½	14½	17⅜	18⅜	11½

The Company's stock is traded on the NASDAQ National Market System under the symbol ADBE. On January 11, 1991 there were 1,155 holders of record of the Company's Common Stock. All share and per share amounts have been retroactively adjusted to reflect a two-for-one stock split effective November 15, 1988.

Corporate Directory

Board of Directors

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

Charles M. Geschke
President and Chief Operating Officer

David C. Evans
Director

William R. Hambrecht
Director

L. William Krause
Director

Robert Sedgewick
Director

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 27, 1991, at the Fairmont Hotel, San Jose, California.

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, General Manager, Systems Products Division

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

Colleen M. Pouliot
General Counsel and Secretary

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

R. Daniel Putman
Senior Vice President, New Product Development

Colophon

This annual report was electronically produced entirely with PostScript software and compatible software applications. Photographs were scanned on Crosfield 646 and Agfa Focus color scanners. Scitex V.I.P. software was used to translate the scans into the Apple Macintosh format. Duotones and four-color separations were created with Adobe Photoshop. Film separations were made with Adobe Separator. Adobe Originals typefaces used in the report are the Minion family, including the Minion Expert Set. Other typefaces, also from the Adobe Type Library, are the Futura and Futura Condensed families.

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