Adobe

the means of expression

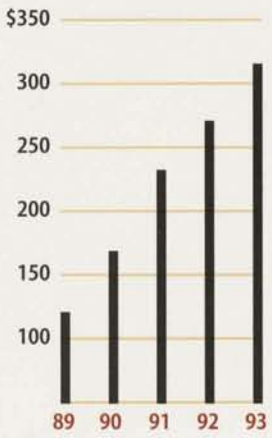
Adobe Systems Incorporated
1993 Annual Report

financial highlights

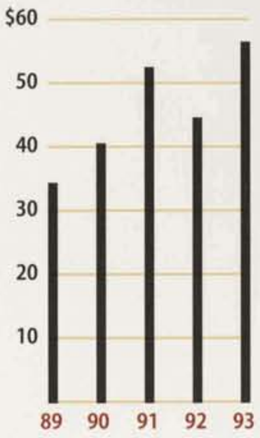
(in thousands, except per share amounts and employee data)

	Years Ended Nov. 26 1993	Nov. 27 1992	Nov. 29 1991	Nov. 30 1990	Dec. 1 1989
Revenue	$ 313,457	$ 265,931	$ 229,653	$ 168,730	$ 121,358
Income before income taxes	91,054	69,530	83,598	66,291	54,853
Net income	57,030	43,610	51,607	40,070	33,706
Net income per share[1]	1.22	.94	1.13	.91	.78
Dividends declared per common share[1]	.20	.16	.16	.12	.10
Cash and short-term investments	236,329	159,840	116,336	69,664	49,666
Working capital	230,627	167,603	124,671	71,844	44,183
Total assets	352,894	281,340	221,195	145,701	94,139
Shareholders' equity	272,266	224,587	182,750	107,800	58,825
Worldwide employees	999	887	701	508	383

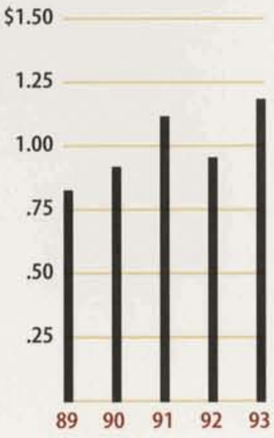
Revenue *(in millions)*



Net income *(in millions)*



Earnings per share[1]



[1] *Adjusted for a two-for-one stock split, effective July 1993.*

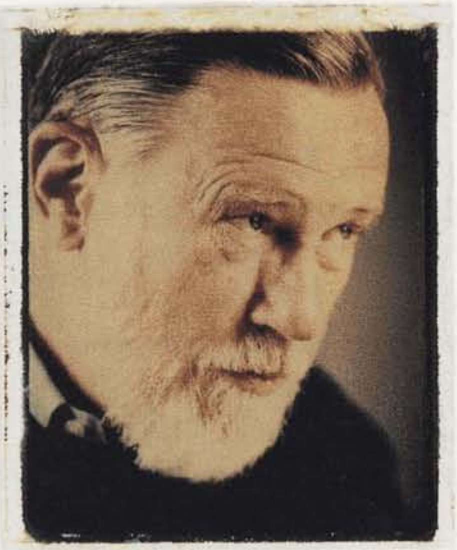
to our shareholders

In 1993, Adobe faced the challenge of maintaining and growing its established graphics applications and PostScript software businesses, while also investing heavily in product and market development for new Acrobat technology, which holds great promise for the company's future. Growth in the graphics application business helped us achieve strong revenue results overall. Despite cost controls, however, earnings grew at a slower rate because of difficult market conditions in the printer industry and significant marketing investments in our Acrobat and PostScript businesses.

Revenue reached $313,457,000 in 1993, an 18 percent increase over 1992 revenue of $265,931,000. Net income for 1993 totaled $57,030,000 compared to $43,610,000 in 1992, a gain of 31 percent, while earnings per share were $1.22, increasing 30 percent over $.94 in 1992. During the year, the company declared cash dividends on its common stock totaling $.20 per share. Our financial position is strong, with a conservative balance sheet. And we continued our stock repurchase program, which has helped keep our share count essentially flat year to year.

We are particularly pleased by the 48 percent growth in revenue for our graphics applications business. Major new releases in all key product lines as well as a significant drive to expand our presence in the PC market fueled this achievement. At the same time, we reduced our cost of goods to increase gross margins, a factor of particular importance as application products contribute a growing share to Adobe's total revenue.

We believe that our applications business is well-positioned to serve an expanding base of customers who use personal computers to create and publish graphically rich documents and digital media. During 1993, we released a new version of Adobe Illustrator software, plus significant upgrades to Adobe Photoshop and Adobe Premiere software for Macintosh users. All three products gained market share. We also completed the introduction of these applications to the PC environment, launching both Adobe Photoshop and Adobe Premiere for Windows. Each product captured the lead in its market category, suggesting the emergence of Windows as an important desktop publishing platform.

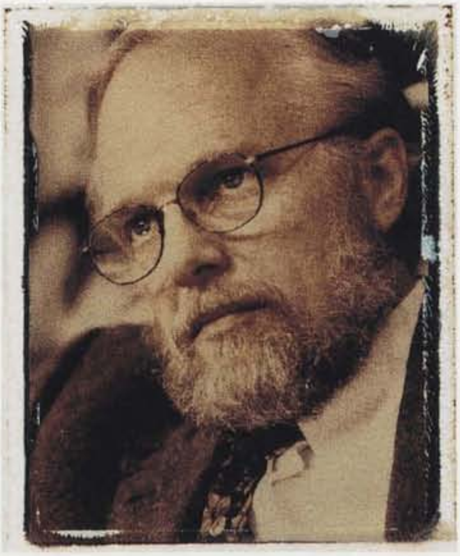


Charles M. Geschke

The launch of our Adobe Acrobat product line was a major undertaking for the company in 1993. Our challenges included educating the market on an entirely new product category and developing a new distribution channel. These factors, plus the long evaluation cycles required by our customers, have caused initial sales to be slower than hoped. However, we are encouraged by the high level of interest.

To build an infrastructure for the Acrobat business, we established a large number of pilot programs among highly visible corporations, government agencies, educational institutions and commercial publishers. We also began seeding programs to spur adoption of the technology within influential customer groups. Most important, we developed a systems integrator and value-added reseller channel, which is a new distribution approach for Adobe. Already, 17 systems integrators have signed agreements, and we expect that these types of relationships will drive future sales of Acrobat products.

Adobe PostScript technology holds a leadership position in professional publishing and in the emerging, high-growth markets of color and network printing. In 1993, however, our PostScript licensing business faced serious challenges caused by intense price competition in the maturing office printer market. Even though we achieved 23 percent unit growth over 1992, our overall revenue declined, primarily because falling prices for office printers yielded lower royalties per unit. Simultaneously, demand increased for new products from our OEM customers, who face shortened product life cycles.



John E. Warnock

In response, we have instituted programs that help speed Adobe PostScript products to market while enabling us to reduce development costs and pursue new growth opportunities. Two such programs are the workstation-based Configurable PostScript Interpreter (CPSI) and the co-development of products with qualified OEM customers. In addition, we are creating new printer features such as PostScript Fax and increasing our investment in advertising and reseller education to help build demand.

Since its founding 11 years ago, Adobe's strategy has been to define and establish open standards that enable the communication of information in heterogeneous computing environments. We then design products for using and exploiting these standards. As society transfers its information from paper to digital form over the next decade, Adobe will continue to provide the best software technologies and tools for creating, printing and sharing that information with visual richness. We have proven the soundness of our strategy with the PostScript licensing and application products businesses, and we will leverage that experience to promote the success of Acrobat technologies.

CHARLES M. GESCHKE
President and Chief Operating Officer

JOHN E. WARNOCK
Chairman of the Board and Chief Executive Officer


imagine
REALIZE
SHARE

everywhere
you look

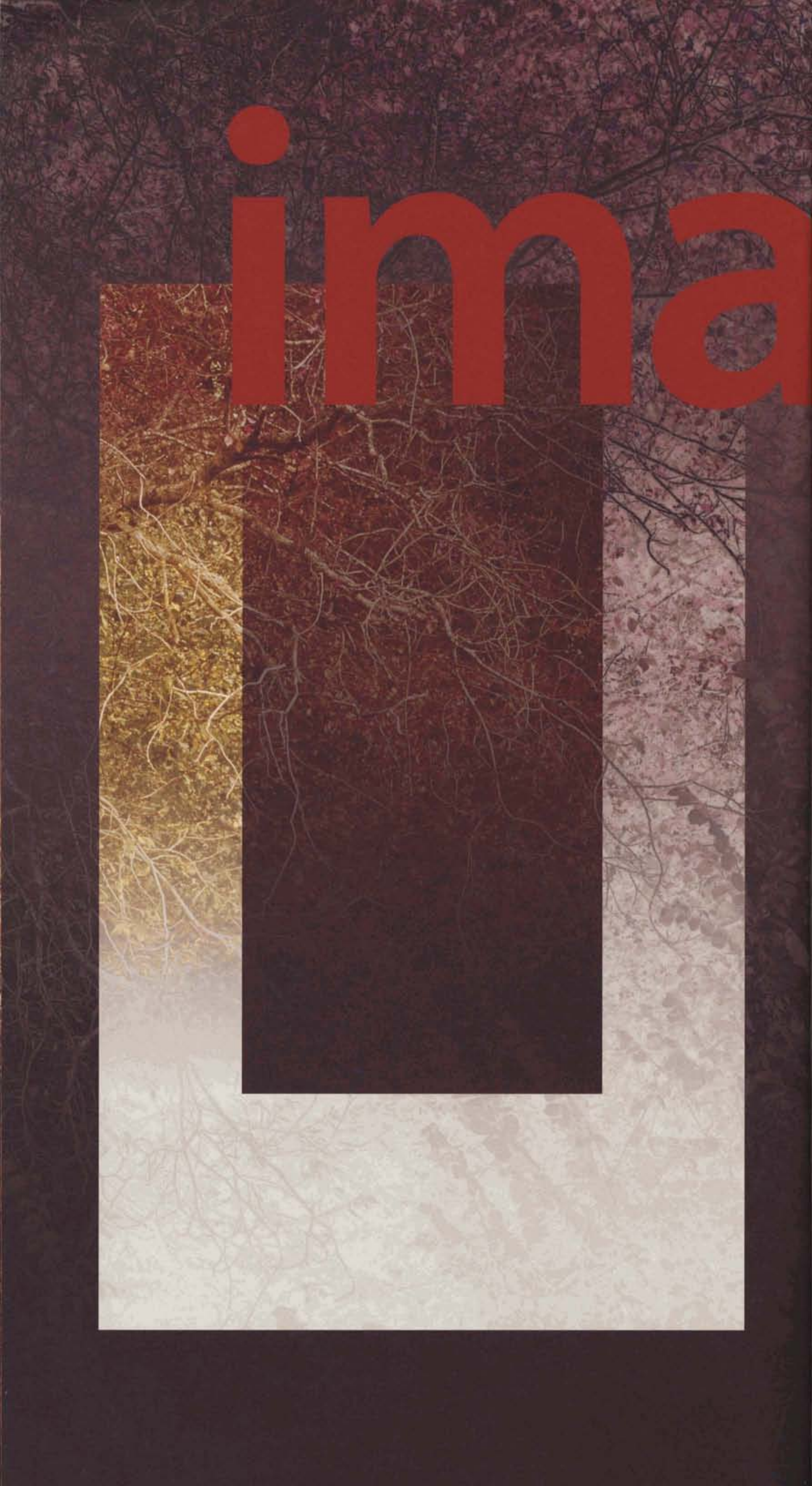
Not long ago, the most critical assets in a business were the goods or services it produced. Today, the lifeblood of every major corporation is information. But where is it? Right now, a tremendous amount of collective data is lying fallow in paper form. This raw bulk is impossible to access in any meaningful way until it is converted into electronic form and made useful with the right tools. The moment information becomes more accessible, every decision a company makes is more valuable and effective.

We call this the "democratization of information." And while instant access won't happen overnight, no company is more uniquely positioned to transform the exisiting base of data into usable information than Adobe.

Everywhere you look, information is now imparted through Adobe technologies. Pick up a magazine and, chances are, the cover will have been created with Adobe Photoshop or Adobe Illustrator software. The type is most likely Adobe's, as well as the PostScript technology that was used to print it.

Adobe's graphics products have become the standards by which information is *imagined* and shaped. The PostScript language is the funnel through which most information is *realized* on the printed page. And Adobe Acrobat software, with its Portable Document Format, can become the standard through which complex documents are *shared*, regardless of the type of computer.

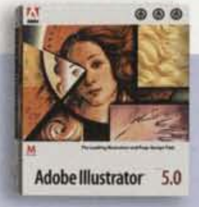
While our technology is ubiquitous today, the future looks even more exciting, as the role of Adobe becomes more central to the new age of digital information. As a company, we imagine and envision an expanded role for images, graphics and fonts as these become ever easier to employ in everyday communication. Adobe PostScript technology will realize its potential to take media far beyond the printed page. And soon, even the most complex documents will be shared in seconds—regardless of computer—through the marvels of Acrobat technology. Of course, while it is always easy to play the futurist game, it is far more challenging to get there. With a cohesive vision and dedicated people, Adobe will be a chief enabler in the digital information age.


ima

gine
anything you can create

Adobe's family of authoring software makes the creative potential of the computer as limitless as the human mind. This suite of application products takes the professional tools once available only in massive, dedicated systems—or not available at all—and puts them on the desktop. It enables art directors, graphic designers and others to create, manipulate and combine all elements of visual communication, from photographs to illustrations to typography to video footage, for output on the screen or printed page.

A banner year. Our flagship applications—Adobe Photoshop, Adobe Illustrator and Adobe Premiere—not only launched whole new categories of software at the times they were introduced, but also continue to offer the most useful, sophisticated capabilities of their kind. And, as powerful as each is individually, these market leaders are even more potent when used together.



Adobe Illustrator 5.0 for Macintosh ships, plus versions for UNIX-based Sun and Silicon Graphics workstations.

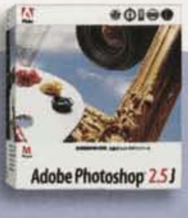
In 1993, Adobe shipped significantly enhanced versions of all three major applications, providing a host of new features developed in response to customer needs. Our distributors and resellers participated in the upgrade process for the first time, enabling these products to reach a greater number and variety of customers than ever before.

Getting in sync. We continued efforts to offer our application products not just on the Macintosh, where they made their initial impact, but also to users working in the PC and UNIX environments. We also made strides toward bringing the feature set for each product into alignment across environments. This "synchronized code base" means that customers can choose the best software for the job without being restricted by the type of computer they use. And it helps prepare us to deliver our products to a whole new base of customers as the PowerPC, Windows NT and other new computing environments emerge.

Adobe is working smarter globally, as well. Localized versions of our application products now generally ship within two to six weeks of their U.S. counterparts, and are typically available in Dutch, French, German, Italian, Japanese, Spanish and Swedish. These versions account for a growing percentage of Adobe's application products revenue.

Page design and illustration. It seems impossible that just one computer program could equip someone to render architectural drawings, to design consumer packaging of all shapes and varieties, to illustrate surgical techniques, even to create aircraft paint schemes. But Adobe Illustrator does just that, giving graphic artists, technical illustrators and desktop publishers a powerful, professional design tool.

Adobe Streamline 3.0 for Macintosh ships, adding to the Adobe Illustrator toolkit.



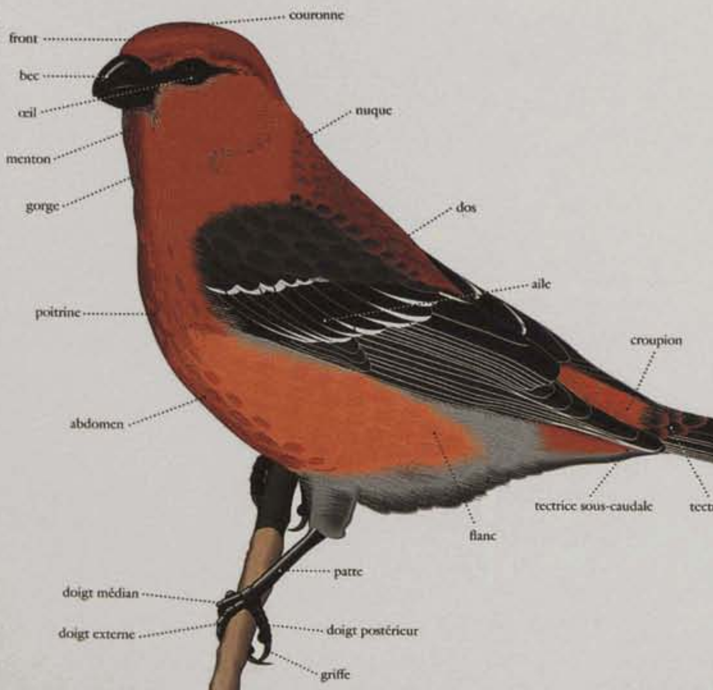
Adobe Photoshop 2.5 becomes available in eight languages for Macintosh and four languages for Windows.

The Macmillan Visual Dictionary uses pictures to describe today's world, enabling readers to "see" the meaning of words. To produce this 830-page volume and its 11 worldwide counterparts via computer, Canadian publisher Éditions Québec creates the 3,500 illustrations with Adobe Illustrator, Adobe Dimensions and Adobe Photoshop software. Before 1987, when Adobe Illustrator was introduced, staff artists worked with pen, ink and screen transfers. Since then, the company has built an electronic database of graphically precise images, providing a rich visual experience for readers while greatly simplifying production of multiple and multilingual editions.

cabbage lettuce

romaine lettuce

green cabbage



Simpson Paper Company

Invisible Software

Computer Sciences Corporation

Computer Sciences Corporation

Moving beyond the limitations of the camera and darkroom, San Francisco commercial photographer Charly Franklin uses Adobe Photoshop software to help create the surrealistic special effects that have become his hallmark. With Adobe Photoshop, he can not only edit out mistakes easily but also create complex shots that previously would have been difficult or impossible to physically stage.

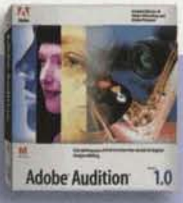
With the release of Macintosh version 5.0, Adobe Illustrator software has never been easier to use, more feature-rich, or more quickly and widely received in the marketplace. Meanwhile, the current version of Adobe Illustrator for the Windows environment enables PC users to tap the graphics potential of the platform. And newly shipped versions for Silicon Graphics and Sun workstations bring the product to UNIX environments.

Two complementary tools, Adobe Streamline software for line-art conversion and Adobe Dimensions software for three-dimensional design, give Adobe Illustrator users additional capabilities while maximizing productivity. Both products are also compatible with graphics software from other companies.

Photo design and production. Adobe Photoshop software takes artists, prepress professionals and photographers beyond the lens and the darkroom into a whole new world of visual possibilities. With uses ranging from movie posters to museum displays, from catalogs to daily newspapers, Adobe Photoshop has become as essential as the camera itself for anyone creating, retouching or processing still images on the computer.

Adobe Photoshop continues to gain market share and has spawned a new industry of third-party accelerator boards, image libraries, color and calibration tools, and other add-ons. With the sophisticated new 2.5 version now available for Macintosh and Windows and, in early 1994, Silicon Graphics and Sun environments, the product has achieved an even greater level of visibility and influence.

Adobe Premiere 3.0 for Macintosh and version 1.0 for Windows ship.



New Adobe Audition gives users an all-in-one entrée to the world of digital image editing.

Video editing. For producers developing the hottest rock videos, corporate trainers directing simple educational films, or publishers creating multimedia versions of magazines for distribution on CD, Adobe Premiere software brings the video editing capabilities once available only with expensive, specialized equipment to the personal computer.

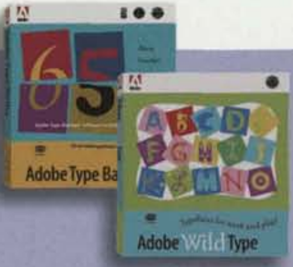
Released in 1993, Adobe Premiere 3.0 for Macintosh injects a new quality into desktop video editing, providing a complete tool for building multimedia presentations. It combines the broad range of options that professionals want—including non-linear editing, graphics and special effects—with cost advantages and convenient access. The Adobe Premiere program is now also available on the Windows platform, giving users a powerful new way to work with moving pictures and sound on the PC.

To reach Macintosh users new to the world of digital image editing, we created Adobe Audition software. It combines limited editions of Adobe Photoshop and Adobe Premiere with a collection of stock photography, movie clips and instructions to give users an easy and inexpensive way to get started.

Digital typography. At Adobe, type is not just a matter of style, but a matter of technology. Our Type 1 font format is recognized by application vendors and service bureaus as the only truly cross-platform type solution. Over the years, Type 1 has created a steady retail business and has been an integral component of our printing and document communication technologies.

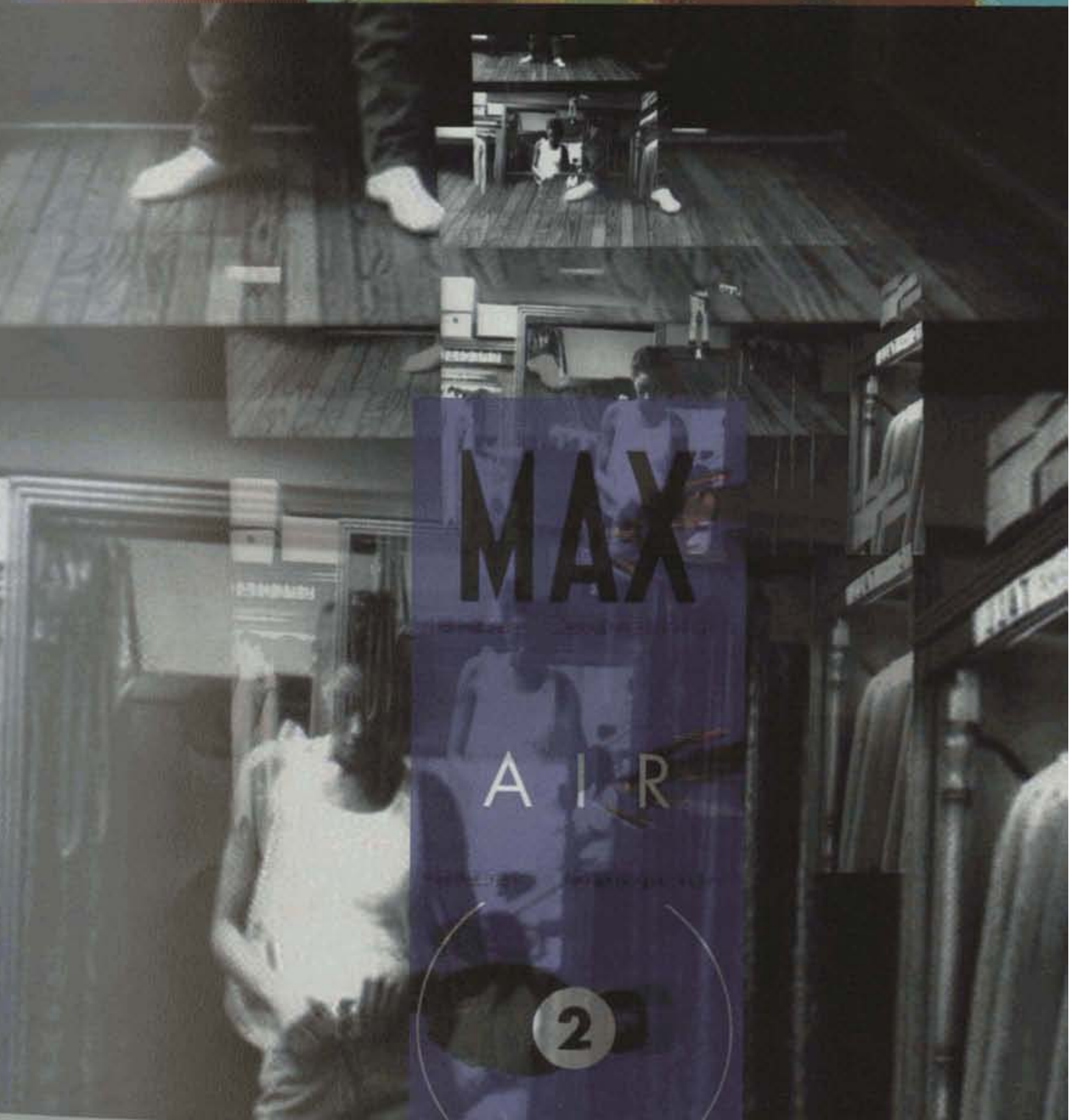
Beginning with a dozen or so typefaces less than a decade ago, offerings in the Type 1 format now encompass over 15,000 fonts from the world's leading foundries. More than 1,900 of these are in the Adobe Type Library, including over 200 Adobe Originals typefaces. Visible in everything from government reports to movie

Adobe Press, a joint venture with Prentice Hall Computer Publishing, releases *Imaging Essentials,* its eighth Adobe software how-to book.



New Adobe Type Basics and Adobe Wild Type offer special font collections for home and office users.

Producing broadcast and marketing videos for clients such as The Discovery Channel, Nike, Levi Strauss, Apple Computer and Sun Microsystems, twentytwoproduct is a film design firm with a technological edge. Instead of working on paper, designers use Adobe Photoshop, Adobe Illustrator and Adobe typeface software to create client presentations. They then use Adobe Premiere software to edit video, audio, animation, photographs, titles and other visual elements into the final production — a process once only possible in expensive, specialized editing facilities. Working on the desktop not only enables twentytwoproduct to collaborate more successfully with clients but also has cut its cost of doing business by three-fourths.



credits, from best-selling novels to print and TV advertising, the Adobe Type Library is the most honored digital type collection in the industry. The selection of Japanese and Cyrillic typefaces for global needs continues to grow. And our multiple master typefaces, enabling users to generate thousands of variations from one design, have redefined the limits for working with type on the computer.

Adobe markets the library in various forms: as individual families and special collections. This year, we successfully offered entry-level packages targeted to specific audiences. The Adobe Wild Type package introduced a set of playful, imaginative typefaces to home, office and school markets, while Adobe Type Basics formed a starter collection for new printer owners and others.

Software in the round. As more and more desktop computers include CD-ROM drives, opportunities to provide software on compact disc are increasing. Already, Adobe offers special CD editions of its three flagship applications for Macintosh computers. And we make a selection of our application products available to third parties who distribute software from multiple vendors on CD.

We market the Adobe Type Library on CD in two forms: The Adobe Font Folio is a one-time purchase for customers such as service bureaus and design firms who need instant access to the entire library, while Type On Call is a locked, buy-as-you-go version for individuals who like the speed and convenience of shopping by phone, with no shipping costs or extra packaging. Type On Call accounts for a growing percentage of Adobe's type revenue and is one of the best-selling CD unlocking products in the industry. This experience positions us to play a leadership role in further developing the compact disc as an efficient, cost-effective means of software delivery.

For Japanese users, Adobe ships an enhanced version of Adobe Type Manager, the Adobe Value Pack type collection, and a range of new Japanese font families.

Compact disc becomes an increasingly important medium for distributing Adobe software.

and,

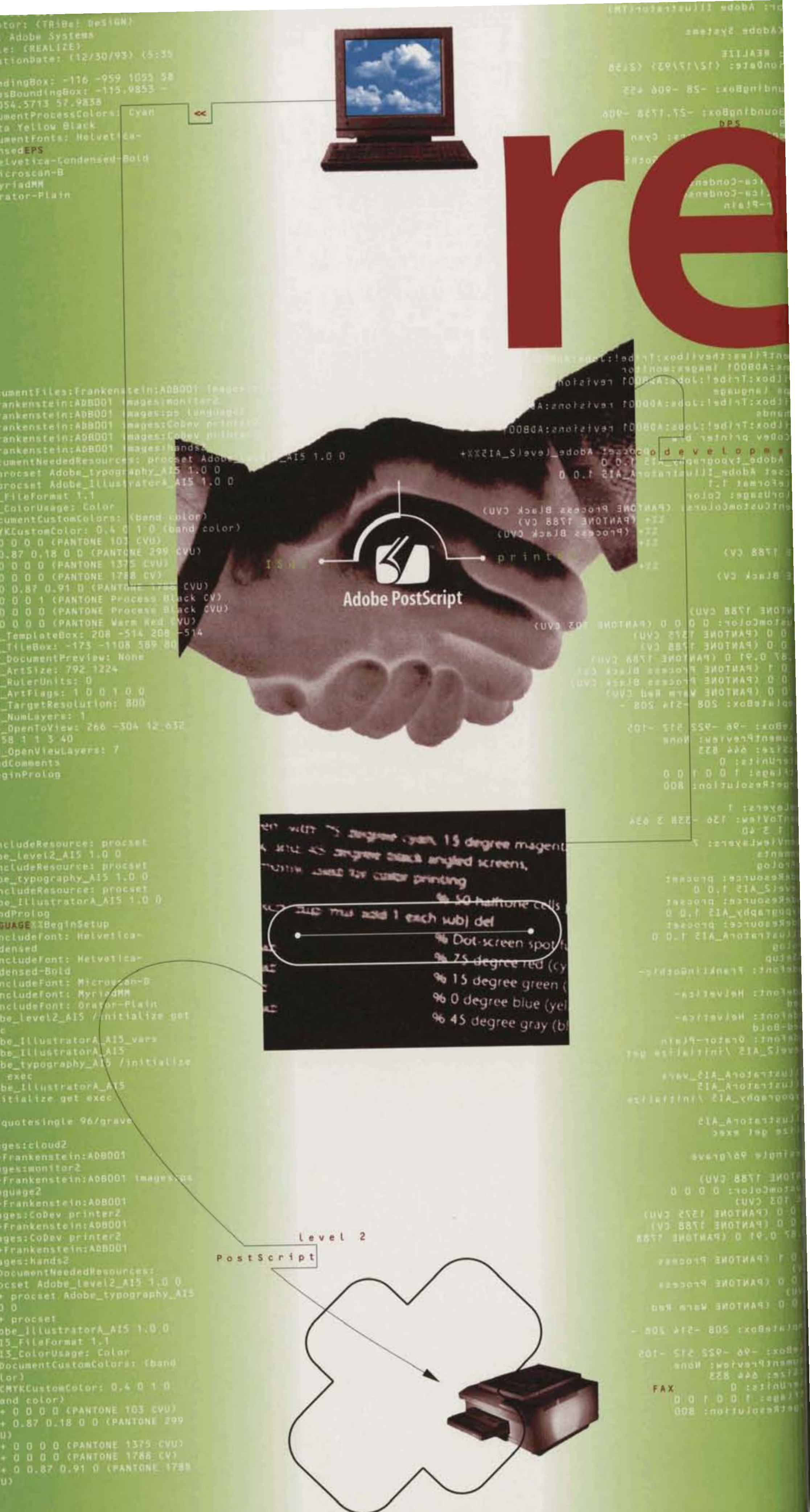
he grail at the end of the history of

cinem

The magazine of the Digital Generation, *Wired* keeps its readership plugged into the societal implications of today's technological revolution. Fittingly, this cutting-edge publication is designed and produced electronically with a wide range of computer and software products, including Adobe Illustrator, Adobe Dimensions, Adobe Photoshop and Adobe Premiere, plus Adobe typefaces such as Berthold Walbaum Book and Myriad multiple master. Creative Director John Plunkett chose Myriad multiple master as body text not only for its legibility but also for its degree of flexibility, which is unavailable with traditional typefaces.

nergies

omputing...


re
Adobe PostScript
d e v e l o p m e
p r i n t
level 2
PostScript
EPS
DPS
FAX
% 15 degree green
% 0 degree blue
% 45 degree gray

alize

everything you envision

Typefaces, layouts, illustrations, charts, photographs...all of these are part of a document's message. Adobe PostScript is the technology that enables computer users to image everything that they imagine. On paper, film, slides, transfers, plates, on virtually every media that can be printed—even computer screens—Adobe PostScript software describes and renders documents of any visual complexity with total precision. It's the way the world gets to see what computer users create.

The industry leader. For output devices from printers to slide recorders, from imagesetters to displays, Adobe's PostScript page-description language continues to be the worldwide standard for representing digital documents. It is the technology of choice for many of the largest multinational corporations, for the vast majority of professional publishers, and the U.S. federal government. It forms the basis for the International Standards Organization page-description standard and remains the only completely platform-independent page-description language—a characteristic that grows in importance as network use increases.

Since the introduction of the technology in 1985, more than 50 manufacturers have produced over 300 Adobe PostScript output devices, offering them at prices that range from less than $700

A national advertising campaign and channel marketing program helps build demand for Adobe PostScript office printers.

to $100,000 and higher. More than 5,000 applications now support the PostScript language standard. This prevalence gives computer users an unprecedented breadth of choice, not only in the output device they choose but in the computer and software, too.

Over the years, Adobe PostScript products have become increasingly affordable and functional, opening up new markets for Adobe while solidifying our presence in established markets. To support our OEM customers, sustain leadership and promote growth, we continue to find new ways to package, distribute, enhance and market Adobe PostScript technology.

A software alternative. One such packaging innovation is the Configurable PostScript Interpreter (CPSI). This software implementation resides in a standard, upgradable workstation, rather than on an embedded controller in an output device. It gives manufacturers greater flexibility in developing new products, while assuring that users receive maximum-quality output.

Interestingly, the same CPSI technology that can drive a $50,000 imagesetter can just as effectively drive an office printer costing less than $1,000. With 24 OEMs now developing them, CPSI-based offerings accounted for 24 percent of new Adobe PostScript products shipped in 1993.

Adding new functionality. Adobe PostScript technology itself has continued to grow, giving printers new capabilities. PostScript Fax, for example, enables laser printers to receive high-quality fax documents on plain paper, and send documents directly from a desktop computer. It provides every user on a network with a printer and a plain-paper fax machine combined—an economical solution. Five manufacturers now offer eight PostScript Fax models. Moreover, the advent of PostScript Fax has opened up a new market category for Adobe—multifunction printers.

With product offerings that range from black-and-white desktop printers to high-resolution color imagesetters, 53 manufacturers license Adobe PostScript or Display PostScript software:

3M Corporation
Agfa-Gevaert N.V.
Apple Computer, Inc.
Autologic, Incorporated
Birmy Graphics Corporation
Bull HN Information Systems
Cactus

CalComp, Inc.
Canon, Inc.
COLORBUS Software
Compaq Computer Corporation
Crosfield Electronics Limited
Dainippon Screen Mfg. Co., Ltd.
Dataproducts Corporation

Ceramics craftsmen once engraved designs by hand onto copper cylinders. But the Royal Doulton Company, a British manufacturer with a worldwide reputation for fine tableware, has developed a unique, computer-based system to handle its graphics. Staff artisans now work with Adobe Illustrator software and custom-written distortion software called PlateScribe, which fits the patterns to various shapes. The PostScript language files that result then go to an Adobe PostScript imagesetter from Scangraphic for 12-color film output. The upgradable PostScript technology in the imagesetter has enabled Royal Doulton to run increasingly complex files at ever-higher resolutions and speeds. By going digital, the company has reduced the time it takes to produce decals for new designs by about two-thirds.

Building new markets. The benefits of Adobe PostScript software are becoming widely available in the office marketplace. Here, where mixed computing environments predominate, Adobe PostScript printers uniquely provide cross-platform operation and network support. For that reason, about half of all Adobe PostScript printers now go to office settings.

This year, our OEMs introduced a variety of affordable, high-performance printers into this market. To help them reach the office printer customer, Adobe launched a major national ad campaign and channel marketing program, both designed to reinforce the advantages of Adobe PostScript products.

Hardware solutions. Adobe continues to invest in hardware technologies that address specific printer cost and performance issues. Through coprocessors, utility software and network support, we can help our OEMs develop products that best meet their customer needs. The Adobe PixelBurst coprocessor for imagesetters and high-volume printers, for instance, renders PostScript language images up to ten times faster than software-based rendering. And the ability of our Type 1 coprocessor to accelerate the rendering of complex, non-roman characters has contributed to Adobe's growing success in the Japanese printer market.

Team efforts. To keep pace with the volume and breadth of activity, Adobe has instituted several new ways of doing business. Now in its second year, our cooperative development program is gaining momentum. Cooperative development enables OEM customers to perform key PostScript software engineering activities in-house, so they can bring more products to market efficiently while differentiating those products with their own proprietary technologies. About one-third of our OEM customers now participate in the program, accounting for about 20 percent of the new Adobe PostScript products shipped in 1993.

Digital Equipment Corporation
E. I. Du Pont de Nemours and Company
Eastman Kodak Company
Eicon Technology Corporation
Electronics for Imaging, Inc.
Fujitsu Limited
Gestetner Lasers Pty. Limited
Hewlett-Packard Company
Indigo
Integrated Computer Solutions, Inc.
International Business Machines Corp.
Lexmark International
Linotype-Hell AG
Management Graphics
Mannesmann Scangraphic
Monotype Systems Ltd.
Matsushita Electric Industrial Co., Ltd.
NEC Corporation
Network Computing Devices, Inc.
NeXT, Inc.
Oce Graphics USA Inc.

We chose the Hewlett-Packard LaserJet 4 series for our creative groups who work on the Macintosh because the printers are easy to connect, and use dependable Adobe PostScript Level 2 drivers.

CHAUNCEY CUMMINGS, SENIOR ANALYST
Walt Disney Pictures and Television

About 75 percent of the page information R.R. Donnelley receives annually is in PostScript language format. It enables us to provide scalable solutions for publishers across a broad range of imaging engines.

TERRY LEAHY, PRESIDENT
Global Software Solutions, R.R. Donnelley & Sons, world's largest commercial printer

For realtors, getting high-quality images to clients quickly can make or break a sale. We've made the Apple LaserWriter Select 360 printer with Adobe PostScript Fax capability the standard in all our offices because it gives our agents the most versatile solution for network printing and communication.

BOB DUFFY, DIRECTOR OF MIS
Cornish & Carey Residential, San Francisco Bay Area's largest independent real estate firm

Swedish furniture giant IKEA produces 30 regional editions of its annual catalog, which averages 260 pages. It is one of the largest printing jobs in the world. To save time and assure consistent quality, thousands of images are processed with Adobe Photoshop software. Page proofs are output on Adobe PostScript color laser printers for production planning. Adobe PostScript imagesetters generate final film for about 10 printing firms in Europe and North America.

At the same time, we have enlisted a number of third parties to provide some of the custom engineering resources once provided exclusively by us. Personal Computer Products, Inc. (PCPI), and Quintar joined Peerless Systems Corporation as value-added development customers in 1993. These team efforts not only reduce Adobe's development costs, but also help our OEM customers to be as responsive as possible in the face of higher demand for Adobe PostScript printers and of increasingly shorter product life cycles.

The UNIX standard. UNIX-based servers and workstations are the place where most corporate databases reside. Adobe PostScript technology is now the dominant laser-printing solution for UNIX environments, and a growing number of Adobe application products are becoming available for UNIX system users. We are developing a reseller channel specifically to distribute and support application products in these technically demanding settings.

In 1993, Adobe's Display PostScript system—with acceptance from the majority of key workstation vendors—became the standard imaging model for UNIX platforms. This advanced graphics software enables users to view pages on-screen that match the output they receive from Adobe PostScript printers.

Display PostScript is included in workstations from Digital Equipment, IBM, Integrated Computer Solutions, Network Computing Devices and Silicon Graphics, and now in all offerings from Sun Microsystems. Display PostScript technology is also included in the NeXTstep operating environment, which will be available to users of Sun, Hewlett-Packard and Intel-based workstations.

With Display PostScript software, UNIX application developers can work in one broadly supported imaging environment. And with Display PostScript, plus a wide selection of printers and Adobe applications to choose from, UNIX users have full access to the benefits of Adobe PostScript technology.

Oki Electric Industry Co.
Optronics, Division of Intergraph
QMS, Inc.
Ricoh Company, Ltd.
Scitex Corporation, Ltd.
Seiko Epson Corporation
Seiko Instruments USA, Inc.
Silicon Graphics, Inc.
Sony Corporation
Sun Microsystems, Inc.
SuperMac Technology, Inc.
Synergy Computer Graphics Corp.
Tektronix, Inc.
Texas Instruments Incorporated
Total Integration, Inc.
Varityper, Inc.
Wang Laboratories, Inc.
Xerox Corporation

S

hare

whatever you have to communicate

Today's computer users spend almost as much time at the file cabinet, photocopier, fax machine and overnight delivery window as they do creating their documents in the first place. The reason? Despite all the world's impressive networking schemes, computers still primarily interchange only raw, unformatted data and text. And documents still are typically distributed and stored on paper. Adobe Acrobat technology is designed to solve the paper-moving problem.

Making documents portable. Launched in 1993, the Adobe Acrobat family of software products captures type, images, color and layouts, builds annotation and navigation capabilities into documents, and makes them transmissable between computers that have nothing in common…except Adobe Acrobat.

Launched June 15, groundbreaking Adobe Acrobat software enables users to communicate digital documents across major computing environments.

At the heart of Adobe Acrobat software is the Portable Document Format (PDF), an independent way of describing the appearance of documents so that they can travel intact across computing environments. Data compression technology keeps storage requirements for the description low. Yet the information it provides is complete in every detail—no matter how long or complex the document. Users can simply print out PDF files as they need them, instead of being deluged with paper. Best of all, users can realize time and cost savings without sacrificing the investment they've already made in computer hardware, software, networks and electronic mail systems.

Tools for interaction. The Adobe Acrobat product family provides a rich set of tools for accessing and sharing PDF documents. Already available for Macintosh and Windows users, the products are scheduled to ship in early 1994 for DOS and UNIX users.

Acrobat Reader enables document recipients to view and print any PDF file and access annotations or links that might be enclosed. It is the tool that corporate and commercial publishers use to distribute documents—like this annual report, for example—to a large audience. Acrobat Exchange offers the same features, plus the capability to create PDF documents and share them with other Acrobat product users. A more specialized product, Acrobat Distiller allows users to convert PostScript language files from desktop publishing programs or DOS and UNIX systems into PDF files. And the Acrobat Starter Kit combines Acrobat Exchange and Acrobat Distiller software into a convenient package for networks of up to ten users.

A new world. The Portable Document Format has been published for use by software developers as an open standard and, like the PostScript language it is based on, defines new boundaries for

RR DONNELLEY & SONS COMPANY

R.R. Donnelley & Sons, the world's largest commercial printer, licenses Acrobat software for distribution through multiple channels.

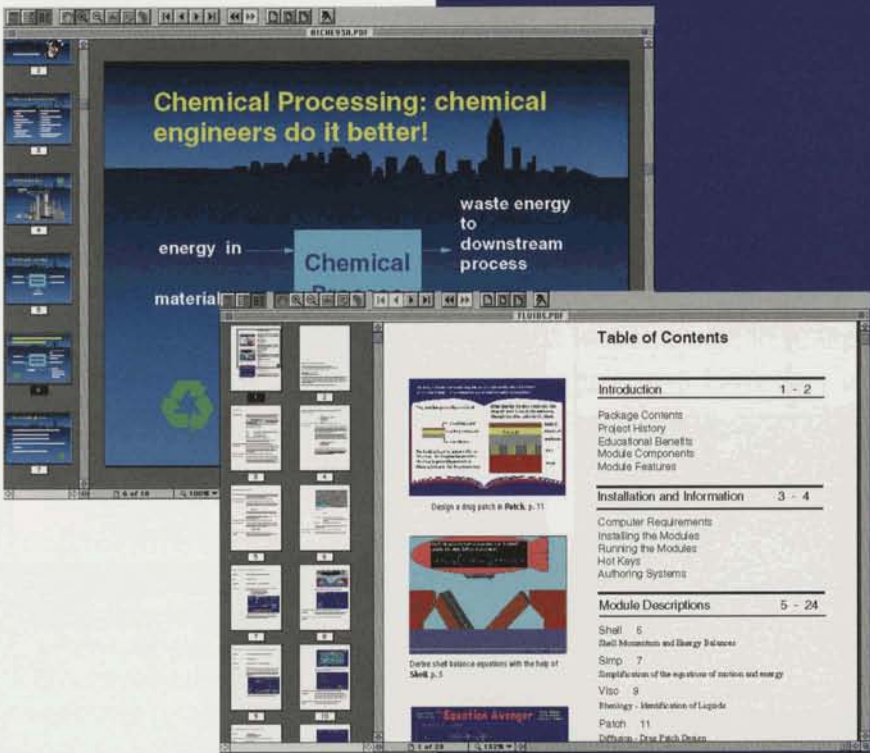
International financial firm J. P. Morgan & Co. licenses Acrobat software for use in economic and securities research.

Adobe Acrobat

Adobe unveils co-marketing programs for software developers who offer Acrobat compatibility.

Electronic Directions/Publication Technologies provides educational and consulting services to professional publishers, advertising agencies, financial institutions and other large organizations who want to adopt electronic publishing as a way of doing business. Practicing what it preaches, the firm has used Adobe Acrobat products to create a library of its documents such as forms, class schedules and marketing materials, storing them as PDF files on a network server for access by employees and clients. The company also distributes its *Electronic Directions* magazine as a PDF file to requesting readers.

Scholastic Inc., a leading publisher of children's books, classroom magazines and educational materials, has launched Scholastic Network, the first on-line information service specifically for teachers, students and schools. Among the resources and activities available on the network are electronic versions of *Junior Scholastic* magazine, including a collection of maps, charts and graphs that appear in the "World Affairs" annual issue, all stored as PDF files using Adobe Acrobat products. Students and teachers on a variety of computers can use Acrobat Reader or Acrobat Exchange software to view the publications on-screen, then print out pages they want to keep.



Professor Peter Rony of the Department of Chemical Engineering at Virginia Polytechnic Institute & State University has embraced Adobe Acrobat technology as a faster, more cost-effective alternative to distributing course materials and software manuals in paper form. He uses Acrobat Exchange and Acrobat Distiller to convert software manuals into PDF files, including annotations and links. In the classroom, his students have begun receiving Acrobat Reader software so that they can view the files on their DOS or Windows systems, saving the department and its students time and money.

expressiveness and richness in digital communication. It is the only open format of its kind, the only approach to sharing electronic documents that is completely independent of computer hardware, application software and networking environment.

For computer users, Adobe Acrobat software represents a completely new way of working with information. It opens up possibilities for publishers, for example, to electronically circulate magazines with fully detailed graphics and interactive footnotes, for government agencies to electronically mass-distribute forms, or for companies to provide technical manuals on CD, complete with linked pages. Documents such as these already are being shared worldwide, even being offered over on-line information services. Ultimately, organizations and individuals will depend on these "information bases"—libraries of electronic documents, stored in the same form as they were received—as the primary means of sharing information.

For Adobe, Acrobat products represent an opportunity to create a new market and develop new channels to reach it. We have focused our efforts in 1993 on educating the marketplace through promotional events and campaigns, launching our initial Acrobat product line, and building the organizational structure and third-party relationships to provide enterprise-wide solutions. As a result, Adobe Acrobat continues to be among the most-talked-about products in the industry, setting an encouraging pace of acceptance and use.

Thousands of users. Acrobat technology is like the telephone; the more people who are connected to it, the more valuable it becomes. In 1993, Adobe delivered Acrobat software to thousands of influential computer users worldwide via sales efforts and corporate evaluation programs.

Frame Technology, Aldus and Corel announce future support of Acrobat technology in their own software products.

Kids take the digital road

Adobe launches $5 million grant program, offering Acrobat software to U.S. elementary and secondary schools.

We offer Acrobat products through a dedicated corporate sales force, as well as through our established retail channels. Most important, 17 systems integrators and value-added resellers have signed agreements to build solutions for their corporate customers around Acrobat software. From financial services companies to pharmaceutical manufacturers, some 300 Fortune 1000 businesses have purchased products for pilot testing.

In addition, distributors who provide software bundles and publications on CD are including Acrobat Reader in their packages as a means of accessing on-line PDF documentation. And fellow software developers are endorsing the technology by bundling Acrobat Reader into their products.

Planting the seeds. To introduce key audiences to Acrobat products, Adobe launched several seeding programs in 1993. "Kids Take the Digital Road," for instance, is a $5 million software grant program for U.S. elementary and secondary schools. It helps broaden the availability of technology to students and educators while stimulating the interest of publishers in providing information in digital format. A second program reaches out to some of the most influential computer users in the workplace; for a nominal charge, industry user groups can acquire Acrobat products for distributing their newsletters electronically to members. At the same time, sponsors of major industry conferences are distributing Acrobat Reader software and electronic PDF versions of proceedings and special publications to their attendees.

A look ahead. Through these and other ongoing efforts, Adobe is laying the groundwork for a whole new business. We are developing extensions of the Acrobat product line, including optical character recognition and enhanced search mechanisms, that will contribute to the technology's sophistication and ease of use—making electronic transmission and storage more simple, practical and valuable than exchanging information on paper. And making the computer an ever-more-effective means of expression.

Adobe Acrobat family wins technical awards from industry trade press, as well as "What's New for 1993" award from *Popular Science* magazine.

Ingram Micro, Apple Computer and IBM license Acrobat Reader for viewing documentation included with software they distribute on CD.

A wholly owned subsidiary of software distributor Ingram Micro, CD Access is creating a compact disc that will comprise 134 application products from 90 vendors—plus the thousands of pages of documentation that go with it all. To include the manuals on the CD, the company converted them into compact PDF files using Adobe Acrobat products. The electronic versions include the hypertext links, bookmarks and tables of contents that will make it easy for readers on any computer platform to navigate through each document, locating, reading and printing the specific information they need.

management's discussion and analysis

The following discussion (presented in millions, except per share amounts) should be read in conjunction with the consolidated financial statements and notes thereto.

RESULTS OF OPERATIONS

Overview

Adobe develops, markets and supports computer software products and technologies that enable users to create, display, print and communicate electronic documents. The Company licenses its technology to major computer and publishing suppliers, and markets a line of type and application software products.

Revenue

	1993	*change*	1992	*change*	1991
Total revenue	$313.5	18%	$265.9	16%	$229.7

In 1993, the Company's worldwide revenue grew 18 percent over the prior year, compared with revenue growth of 16 percent in 1992 over 1991.

Revenue growth in fiscal 1993 is attributable to an increase in application products revenue resulting from the release of new and enhanced products. This growth was partially offset by declining prices of laser printers, leading to a decline in licensing revenue. For fiscal 1992, revenue growth is attributable to an increase in both licensing and application products revenue. Product unit volume (as opposed to price) growth was the principal factor in the Company's revenue growth in 1992.

	1993	*change*	1992	*change*	1991
Product group revenue –					
Licensing	$146.2	-4%	$152.7	10%	$139.5
Percentage of total revenue	46.6%		57.4%		60.7%

Licensing revenue is derived from shipments of products containing the PostScript interpreter and the Display PostScript system by original equipment manufacturer (OEM) customers. Such products include printers in both Roman and Japanese languages, imagesetters and workstations.

The number of units shipped by OEMs continued to grow on an annual basis. However, the Company's licensing revenue growth rate, which slowed from 1991 to 1992, declined from 1992 to 1993 as a result of continued reductions in average royalty revenue per unit shipped. Royalty per unit is generally calculated as a percentage of the end user list price of a printer. During 1992 and 1993, several of the Company's OEMs introduced new lower-end (8-page-per-minute) printers, resulting in a shift in product mix to a lower average list price. This resulted in slower licensing revenue growth in 1992 and declining revenue in 1993. However, some components of licensing revenue are based on a flat dollar amount per unit and typically do not decline with list price changes.

The Company has seen year-to-year increases in the number of OEM customers from which it is receiving licensing revenue, demonstrating continued acceptance of PostScript software, as well as reflecting a diversification of the Company's customer base across Macintosh, IBM PC and compatibles, and multiple platform markets. Hewlett-Packard Company (HP) accounted for more than 10 percent of the Company's total revenue in 1993; no OEM customer accounted for more than 10 percent of the Company's total revenue in fiscal year 1992; and Apple Computer, Inc. (Apple), accounted for more than 10 percent of the Company's total revenue in 1991.

	1993	*change*	1992	*change*	1991
Product group revenue –					
Application products	$167.3	48%	$113.2	25%	$90.2
Percentage of total revenue	53.4%		42.6%		39.3%

Increases in application products revenue were led by a new version of Adobe Photoshop (version 2.5) software for the Macintosh and Windows environments. New versions of Adobe Illustrator (version 5.0) and Adobe Premiere (version 3.0) software for the Macintosh platform also contributed to revenue growth in fiscal 1993. In addition, the introduction of Adobe SuperATM software (from the Adobe Type Manager product family), a font substitution product for the Macintosh platform, and Adobe Acrobat software, a document communication product family for the Macintosh and Windows platforms, contributed to revenue growth in fiscal 1993. Localized versions for the Japanese market of Adobe Photoshop for the Macintosh and Windows platforms, and Adobe Type Manager for the Macintosh environment, also contributed to the revenue growth from application products.

Direct costs

	1993	*change*	1992	*change*	1991
Direct costs	$55.2	14%	$48.5	11%	$43.8
Percentage of total revenue	17.6%		18.2%		19.1%

Direct costs include packaging, diskettes and shipping for application products. It also includes royalties for certain typeface designs that are distributed as downloadable software packages or bundled with the PostScript interpreter. Also included in direct costs is the amortization of typeface production costs and acquired technology.

As application products revenue has grown more rapidly than licensing revenue, and has contributed to an increasing percentage of total revenue over the last three years, direct costs have increased in absolute dollars. Several factors have enabled the Company to mitigate the growth of direct costs as a percentage of total revenue. Direct costs decreased as a percentage of total revenue in 1992 because a licensing agreement with a major typeface foundry was renegotiated at the beginning of the year. In 1993, the Company achieved reductions in certain royalty agreements and in the cost of the pack-out associated with certain of its shrink-wrapped products. As upgrades to products are brought to market, the Company will continue to redesign its packaging to reduce the cost of the materials that make up the pack-out for these products. Also in 1993, the Company discontinued capitalizing typeface production costs. Remaining capitalized costs will be amortized through fiscal 1995, resulting in declining charges to direct costs.

The Company is also delivering its type library on CD-ROM media, and end users wishing to license typeface designs need only to call the Company with a credit card number to receive the unlocking code for the desired typeface. This method of delivery also contributes to reduced direct costs.

Licensing revenue typically has higher gross margins than application product sales; therefore, revenue mix in any quarter will affect overall gross margins.

Operating expenses

	1993	*change*	1992	*change*	1991
Research and development	$64.9	31%	$49.6	49%	$33.2
Percentage of total revenue	20.7%		18.7%		14.5%

Research and development expenses consist principally of salaries and benefits for software developers, contracted development efforts, related facilities costs, and expenses associated with computer equipment used in software development.

Research and development expense has increased significantly over the last three years, growing more rapidly than revenue, as the Company invested in new technologies and new product development. The increase, both in absolute dollars and as a percentage of revenue, reflects additions to the Company's engineering staff and related costs required to support its continued emphasis on developing new products and enhancing existing products. These engineers are working primarily with OEM customers to design and implement PostScript Level 2 devices. In addition, the Company has begun working with many of its OEM customers in a co-development program. This allows customers to be more self-sufficient in new device development by taking on more of the implementation task themselves rather than relying so heavily on the Company's engineers. The Company also continues to make significant investments in its graphic application products, as well as the new Acrobat product family.

The Company believes that continued investments in research and development are necessary to remain competitive in the marketplace, and are directly related to continued, timely development of new and enhanced products. The Company intends to continue recruiting and hiring experienced software developers, but expects that research and development expenditures in 1994 will approximate current spending levels as a percentage of revenue.

	1993	*change*	1992	*change*	1991
Write-off of in-process research and development	–	–	$6.3	–	–
Percentage of total revenue	–		2.4%		–

During the third quarter of fiscal 1992, the Company acquired OCR Systems Incorporated and Nonlinear Technologies, Incorporated, for an aggregate purchase price of $6.8 million, of which $6.3 million was allocated to research and development in-process. This amount was expensed at the time of these acquisitions. The Company plans to integrate the acquired technologies into future products.

	1993	*change*	1992	*change*	1991
Sales, marketing and customer support	$89.5	26%	$70.8	26%	$56.4
Percentage of total revenue	28.5%		26.6%		24.6%

Sales, marketing and customer support expenses generally include salaries and benefits, sales commissions, travel expenses and related facility costs for the Company's sales, marketing, customer support and distribution personnel. Sales, marketing and customer support expense also includes the costs of programs aimed at increasing revenues, such as advertising, trade shows and other market development programs.

Increases in sales, marketing and customer support expenses are due to planned hiring of sales personnel to focus on the Acrobat family of products, increased advertising and promotional expenditures for the launch of new products and upgrades of existing products, and further development of customer support services to support a growing installed base of customers.

The Company expects to continue its emphasis on sales, marketing and customer support activities in the future to promote the Company's competitive position and to support sales and marketing of new products. The Company expects that sales, marketing and customer support expenditures in 1994 will be higher than current spending levels as a percentage of revenue.

	1993	*change*	1992	*change*	1991
General and administrative	$23.0	3%	$22.3	21%	$18.4
Percentage of total revenue	7.3%		8.4%		8.0%

General and administrative expenses consist principally of salaries and benefits, travel expenses, and related facility costs for the finance, human resources, legal, information technical services and administrative personnel of the Company. General and administrative expenses also include outside legal and accounting fees, and expenses associated with computer equipment and software used in the administration of the business.

The growth in spending on general and administrative expenses is attributable to the growth in the systems, processes and people necessary to support overall increases in the scope of the Company's operations. General and administrative spending dropped as a percentage of revenue in 1993 from 1992 due to increased revenues in 1993, coupled with reduced legal expenditures.

The Company's objective is to maintain the general and administrative spending at the same percentage of revenue in 1994 as was achieved in 1993.

Nonoperating income (expense)

	1993	*change*	1992	*change*	1991
Interest, investment and other income	$10.1	42%	$7.1	25%	$5.7
Percentage of total revenue	3.2%		2.7%		2.5%

Interest, investment and other income grew by $3.0 million in 1993 from 1992 and by $1.4 million in 1992 over 1991. Fiscal 1993 included a gain of $3.9 million on the sale of common stock held as an investment and a $1.0 million write-off of an investment in a privately held enterprise. While the Company's cash balances and short-term investments have increased each year due to profitable operations and modest expenditures for capital outlays and other investments, interest, investment and other income would have decreased approximately $100,000 absent the net gain on such sales of common stock. Such decrease is attributable to lower interest rates earned on the Company's investments due to reductions in prevailing interest rates.

	1993	*change*	1992	*change*	1991
Loss on real estate partnership	–	–	($6.0)	–	–
Percentage of total revenue	–		-2.3%		–

The Company incurred a $6.0 million loss on a real estate partnership in 1992, as it withdrew from this partnership, due to complications that affected the developer's ability to finance the project and to meet specific development timetables.

Provision for income taxes

	1993	*change*	1992	*change*	1991
Provision for income taxes	$34.0	31%	$25.9	-19%	$32.0
Percentage of total revenue	10.9%		9.7%		13.9%
Effective tax rate	37.4%		37.3%		38.2%

During the third quarter of fiscal 1993, the Omnibus Budget and Reconciliation Act ("OBRA") of 1993 was enacted into law. OBRA included a retroactive federal tax rate increase from 34 percent to 35 percent, and retroactive reinstatement of the federal research tax credit. The effects of applying the provisions of OBRA to fiscal 1993 were reflected commencing in the tax provision in the third quarter of fiscal 1993.

The Company's effective tax rate was lower in 1992 compared with 1991, primarily because the Company was able to take advantage of $3.3 million in research and development credits in fiscal 1992.

For an analysis of the differences between the statutory and effective income tax rates, see "Note 6 – Income Taxes" in the Notes to Consolidated Financial Statements.

Net income and net income per share

	1993	*change*	1992	*change*	1991
Net income	$57.0	31%	$43.6	-16%	$51.6
Percentage of total revenue	18.2%		16.4%		22.5%
Net income per share	$1.22	30%	$.94	-17%	$1.13
Weighted shares *(In thousands)*	46,627	–	46,650	2%	45,882

Net income for fiscal 1993 increased 31 percent, including the $3.9 million gain on sale of an investment. Earnings per share were $1.22, a 30 percent increase from fiscal 1992. The one-time gain on the sale of an investment resulted in an increase in earnings per share of $.05.

Net income for fiscal 1992 decreased by 16 percent, including the $6.3 million charge for the write-off of acquired in-process research and development and the $6.0 million loss on the investment in a real estate partnership. Earnings per share was $.94, a 17 percent decrease from fiscal 1991. The one-time charges resulted in a reduction in earnings per share of $.16.

Factors that may affect future results of operations

The Company believes that in the future its results of operations could be impacted by factors such as renegotiation of royalty arrangements, delays in shipment of the Company's new products and major new versions of existing products, market acceptance of new products and upgrades, growth in worldwide personal computer and printer sales and sales price adjustments, consolidation in the OEM printer business, and adverse changes in general economic conditions in any of the countries in which the Company does business.

The Company's OEM customers on occasion seek to renegotiate their royalty arrangements. The Company evaluates these requests on a case-by-case basis. If an agreement is not reached, a customer may decide to pursue other options, including licensing a PostScript language compatible interpreter from a third party, which could result in lower licensing revenue for the Company.

The Company's ability to develop and market products that successfully adapt to current market needs may also have an impact on the results of operations. A portion of the Company's future revenue will come from these products. Delays in such introductions could have an adverse effect on the Company's revenue, earnings or stock price. The Company cannot determine the ultimate effect that these new products or upgrades will have on its sales or results of operations.

Due to the factors noted above, the Company's future earnings and stock price may be subject to significant volatility, particularly on a quarterly basis. Any shortfall in revenue or earnings from levels expected by securities analysts could have an immediate and significant adverse effect on the trading price of the Company's common stock in any given period. Additionally, the Company may not learn of such shortfalls until late in the fiscal quarter, which could result in an even more immediate and adverse effect on the trading price of the Company's common stock. Finally, the Company participates in a highly dynamic industry, which often results in significant volatility of the Company's common stock price.

FINANCIAL CONDITION

Cash and short-term investments

	1993	*change*	1992	*change*	1991
Cash and short-term investments	$236.3	48%	$159.8	37%	$116.3

Cash, cash equivalents and short-term investments totaled $236.3 million as of November 26, 1993, compared to $159.8 million as of November 27, 1992, representing 67 percent and 57 percent of total assets, respectively.

The Company's cash balances and short-term investments have increased each year due to profitable operations and modest expenditures for capital outlays and other investments. Cash equivalents consist of highly liquid money market instruments. Short-term investments are carried at the lower of cost or market value and consist principally of municipal bonds, commercial paper, money market preferred stocks, asset-backed securities and treasury notes.

Noncurrent liabilities and shareholders' equity

	1993	*change*	1992	*change*	1991
Noncurrent liabilities and shareholders' equity	\$279.2	24%	\$224.6	23%	\$182.8

Included above are put warrants and shareholders' equity. The Company has no long-term debt.

Shareholders' equity as of November 26, 1993, was \$272.3 million, compared to \$224.6 million as of November 27, 1992.

The Board of Directors of the Company approved a two-for-one stock split on July 9, 1993, payable in the form of a stock dividend for shareholders of record as of July 27, 1993, with a distribution date of August 10, 1993. All per share data has been restated to reflect this stock split.

Working capital

	1993	*change*	1992	*change*	1991
Working capital	\$230.6	38%	\$167.6	34%	\$124.7

Working capital grew to \$230.6 million as of November 26, 1993, compared to \$167.6 million as of November 27, 1992. Cash flow provided by operations during fiscal 1993 was \$107.7 million. Cash generated from operations has been sufficient to fund the Company's investment in research and development, and sales and marketing activities. Expenditures for property and equipment totaled \$14.4 million. Such expenditures are expected to continue, including computer systems for development, sales and marketing, product support, and administrative staff. Cash may also be used to acquire technology where appropriate.

Net cash used for financing activities during fiscal 1993 was \$12.2 million; \$17.0 million was provided by proceeds from issuance of common stock; \$.5 million was provided by premiums from the sale of put warrants; \$21.2 million was used to repurchase common stock; and \$8.5 million was used to pay cash dividends. Repurchases of the Company's common stock will continue to provide shares for issuance under its stock plans.

Under its authorized stock repurchase program, the Company sold put warrants that enabled the holder to sell 350,000 shares of common stock of the Company at prices ranging from \$18.50 to \$22.13. The Company's maximum potential buyback obligation at November 26, 1993, aggregated \$6.9 million.

The Company has an unsecured \$10.0 million bank line of credit that may be used from time to time to facilitate short-term cash flow. The line of credit expires in March 1994. There have been no borrowings under this line during 1993 or 1992.

The Company's principal commitments as of November 26, 1993, consisted of obligations under operating leases for facilities.

The Company believes that present working capital levels, including cash generated from operations, are adequate to meet its operating cash requirements in the foreseeable future.

consolidated balance sheets

(in thousands, except share data)

	Nov. 26 1993	Nov. 27 1992
Assets		
Current assets:		
Cash and cash equivalents	$ 94,742	$ 47,204
Short-term investments	141,587	112,636
Receivables	49,836	48,866
Inventories	4,111	4,757
Other current assets	4,320	3,623
Deferred income taxes	9,753	7,270
Total current assets	304,349	224,356
Property and equipment	23,325	20,734
Typeface production costs	4,841	9,149
Other assets	20,379	25,578
Deferred income taxes	–	1,523
	$ 352,894	$ 281,340
Liabilities and shareholders' equity		
Current liabilities:		
Trade and other payables	$ 9,790	$ 4,576
Accrued expenses	39,976	29,699
Income taxes payable	18,594	17,034
Deferred revenue	5,362	5,444
Total current liabilities	73,722	56,753
Put warrants	6,906	–
Shareholders' equity:		
Preferred stock, no par value; 2,000,000 shares authorized; none issued	–	–
Common stock, no par value; 200,000,000 shares authorized; 45,166,758 and 44,449,106 shares issued and outstanding as of November 26, 1993, and November 27, 1992, respectively	49,576	49,922
Retained earnings	222,690	174,665
Total shareholders' equity	272,266	224,587
	$ 352,894	$ 281,340

See accompanying notes to consolidated financial statements.

consolidated statements of income

(in thousands, except per share data)

	Years Ended Nov. 26 1993	Nov. 27 1992	Nov. 29 1991
Revenue:			
Licensing	$ 146,176	$ 152,701	$ 139,479
Application products	167,281	113,230	90,174
Total revenue	313,457	265,931	229,653
Direct costs	55,151	48,450	43,758
Gross margin	258,306	217,481	185,895
Operating expenses:			
Research and development	64,867	49,609	33,223
Sales, marketing and customer support	89,464	70,790	56,406
General and administrative	22,995	22,348	18,373
Write-off of in-process research and development	–	6,325	–
Total operating expenses	177,326	149,072	108,002
Operating income	80,980	68,409	77,893
Nonoperating income (expense):			
Interest, investment and other income	10,074	7,121	5,705
Loss on real estate partnership	–	(6,000)	–
Income before income taxes	91,054	69,530	83,598
Provision for income taxes	34,024	25,920	31,991
Net income	$ 57,030	$ 43,610	$ 51,607
Net income per share	$ 1.22	$ .94	$ 1.13
Shares used in computing net income per share	46,627	46,650	45,882

See accompanying notes to consolidated financial statements.

consolidated statements of shareholders' equity

(dollars in thousands)

	Common Stock		Retained Earnings	Total
	Shares	Amount		
Balances as of November 30, 1990	41,913,394	$ 14,128	$ 93,672	$ 107,800
Issuance of common stock under Stock Option Plan	2,217,750	12,413	–	12,413
Issuance of common stock under Employee Stock Purchase Plan	304,038	2,876	–	2,876
Issuance of common stock under Restricted Stock Plans	22,440	–	–	–
Tax benefit from employee stock plans	–	15,910	–	15,910
Restricted stock compensation expense	–	2,184	–	2,184
Dividends declared at $.16 per share	–	–	(7,016)	(7,016)
Repurchase of common stock	(191,484)	(3,024)	–	(3,024)
Net income	–	–	51,607	51,607
Balances as of November 29, 1991	44,266,138	44,487	138,263	182,750
Issuance of common stock under Stock Option Plan	644,598	5,727	–	5,727
Issuance of common stock under Employee Stock Purchase Plan	328,080	4,540	–	4,540
Issuance of common stock under Restricted Stock Plans	68,360	–	–	–
Tax benefit from employee stock plans	–	5,611	–	5,611
Restricted stock compensation expense	–	2,278	–	2,278
Dividends declared at $.16 per share	–	–	(7,208)	(7,208)
Repurchase of common stock	(858,070)	(12,721)	–	(12,721)
Net income	–	–	43,610	43,610
Balances as of November 27, 1992	44,449,106	49,922	174,665	224,587
Issuance of common stock under Stock Option Plan	1,115,183	11,282	–	11,282
Issuance of common stock under Employee Stock Purchase Plan	414,282	5,679	–	5,679
Issuance of common stock under Restricted Stock Plans	50,300	–	–	–
Tax benefit from employee stock plans	–	8,649	–	8,649
Restricted stock compensation expense	–	1,651	–	1,651
Dividends declared at $.20 per share	–	–	(9,005)	(9,005)
Repurchase of common stock	(862,113)	(21,175)	–	(21,175)
Proceeds from sales of put warrants	–	474	–	474
Reclassification of put warrant obligations	–	(6,906)	–	(6,906)
Net income	–	–	57,030	57,030
Balances as of November 26, 1993	45,166,758	$ 49,576	$ 222,690	$ 272,266

See accompanying notes to consolidated financial statements.

consolidated statements of cash flows

(in thousands)

	Years Ended		
	Nov. 26 1993	Nov. 27 1992	Nov. 29 1991
Cash flows from operating activities:			
Net income	$ 57,030	$ 43,610	$ 51,607
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Restricted stock compensation expense	1,651	2,278	2,184
Depreciation and amortization	25,967	19,001	15,244
Deferred income taxes	(960)	(10,035)	1,691
Unrealized loss on short-term investments	(113)	(509)	–
Provision for losses on accounts receivable	281	203	53
Write-off of in-process research and development	–	6,325	–
Loss on real estate partnership	–	6,000	–
Changes in operating assets and liabilities:			
Receivables	(1,251)	(11,169)	(6,614)
Inventories	646	(826)	64
Other current assets	(697)	(466)	(167)
Trade and other payables	4,731	(1,568)	1,205
Accrued expenses	10,277	6,694	1,229
Income taxes payable	10,210	17,528	15,186
Deferred revenue	(82)	2,782	(2,548)
Net cash provided by operating activities	107,690	79,848	79,134
Cash flows from investing activities:			
Purchases of short-term investments	(672,709)	(705,555)	(481,023)
Maturities and sales of short-term investments	643,871	679,459	445,175
Acquisitions of property and equipment	(14,436)	(11,891)	(12,212)
Capitalization of typeface production costs	–	(5,767)	(4,973)
Additions to other assets, net	(4,615)	(2,708)	(21,045)
Acquisitions, net of cash acquired	–	(6,825)	–
Net cash used for investing activities	(47,889)	(53,287)	(74,078)
Cash flows from financing activities:			
Proceeds from issuance of common stock	16,961	10,267	15,289
Proceeds from sales of put warrants	474	–	–
Repurchase of common stock	(21,175)	(12,721)	(3,024)
Payment of dividends	(8,523)	(7,208)	(6,497)
Net cash provided by (used for) financing activities	(12,263)	(9,662)	5,768
Net increase in cash and cash equivalents	47,538	16,899	10,824
Cash and cash equivalents at beginning of period	47,204	30,305	19,481
Cash and cash equivalents at end of period	$ 94,742	$ 47,204	$ 30,305
Supplemental disclosures:			
Cash paid during the period for income taxes	$ 20,284	$ 13,472	$ 15,114
Noncash investing and financing activities:			
Tax benefit from employee stock plans	$ 8,649	$ 5,611	$ 15,910
Dividends declared but not paid	$ 2,262	$ 1,780	$ 1,780
Reclassification of put warrants	$ 6,906	$ –	$ –

See accompanying notes to consolidated financial statements.

note 1
SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation
Founded in 1982, Adobe Systems Incorporated develops, markets and supports computer software products and technologies that enable users to create, display, print and communicate electronic documents. 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 purchase.

Short-term investments
Short-term investments are carried at the lower of cost or market value. Short-term investments consist principally of United States government and government agency securities, municipal bonds, commercial paper, auction rate preferred stocks, and asset-backed securities.

The Financial Accounting Standards Board recently adopted Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This statement requires that securities be classified as "held-to-maturity," "available-for-sale" or "trading," and that securities in each classification be accounted for at either amortized cost or fair value, depending upon their classification. The Company will be required to adopt SFAS No. 115 no later than November 26, 1994. Management expects that adoption of SFAS No. 115 will not have a material effect on the Company's results of operations.

Inventories
Inventories are 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 calculated using 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.

Software development costs
Research and development costs are charged to expense when incurred. Costs incurred in the research and development of new software products and enhancements to existing software products are also expensed as incurred until the technological feasibility of

the product has been established. After technological feasibility has been established, any additional costs would be capitalizable in accordance with SFAS No. 86. The amount of capitalization costs to date has not been significant for any development costs other than those associated with typeface production through fiscal 1992. Typeface production costs, less $7.3 million and $12.5 million accumulated amortization in 1993 and 1992, respectively, comprise direct and indirect costs associated with the production of typefaces to be used with the PostScript interpreter, or to be distributed in shrink-wrapped packages to end users through the retail channel or directly from the Company.

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 six years for licensing agreements.

Revenue recognition

Licensing revenue is recognized when the Company's original equipment manufacturer (OEM) customers ship their products incorporating Adobe's software to their end-user customers. Application products revenue is recognized upon shipment. Revenue from distributors is subject to agreements allowing limited rights of return and price protection. The Company provides reserves for estimated future returns, exchanges and price protection.

The Company also enters into contracts with OEMs to provide research and development to adapt the Company's software products to the OEMs' hardware products. Revenue on such contracts is recognized based on the percentage-of-completion method and is included in licensing revenue. Deferred revenue comprises payments received in advance of revenue recognized on the aforementioned contracts. Revenue relating to OEM licenses stipulating fixed future payment streams in excess of 12 months is recognized as income on a straight-line basis over the term of the licenses.

Direct costs

Direct costs include royalties, amortization of typeface production costs, amortization of acquired technologies, and direct product, packaging and shipping costs.

Income taxes

The Company accounts for its income taxes under SFAS No. 109, "Accounting for Income Taxes." Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Effective December 1, 1991, the Company adopted SFAS No. 109. The effect of the change in method of accounting was not material to the consolidated financial statements.

Concentration of credit risk

The Company's investment portfolio is diversified and consists principally of investment grade securities. The Company's investments are managed by recognized financial institutions that follow the Company's investment policy. The Company's policy limits the amount of credit exposure in any one issue.

Credit risk in receivables is limited to OEMs, and to dealers and distributors of hardware and software products to the retail market. The Company adopts credit policies and standards to keep pace with the evolving software industry. Management believes that any risk of accounting loss is significantly reduced due to the diversity of its products, end customers, and geographic sales areas. The Company performs ongoing credit evaluations of its customers' financial condition, and requires letters of credit or other guarantees, whenever deemed necessary.

Net income per share

Net income per share is based upon weighted average common and dilutive equivalent shares outstanding. Dilutive common equivalent shares are determined using the treasury stock method. Fully diluted earnings per share for 1993, 1992 and 1991 were not materially different than primary earnings per share.

Reclassifications

Certain reclassifications were made to the 1992 and 1991 consolidated financial statements to conform to the 1993 presentation.

note 2

RECEIVABLES

(in thousands)

Receivables consisted of the following:	Nov. 26 **1993**	Nov. 27 **1992**
Royalties	$ 22,532	$ 34,262
Product sales	25,973	13,528
Interest and other receivables	2,302	1,766
	50,807	49,556
Less allowance for doubtful accounts	971	690
	$ 49,836	$ 48,866

note 3

PROPERTY AND EQUIPMENT

(in thousands)

Property and equipment consisted of the following:	Nov. 26 **1993**	Nov. 27 **1992**
Computers and peripherals	$ 44,312	$ 33,124
Furniture and fixtures	14,397	13,105
Leasehold improvements	3,822	2,628
	62,531	48,857
Less accumulated depreciation and amortization	39,206	28,123
	$ 23,325	$ 20,734

note 4
OTHER ASSETS

(in thousands)

Other assets consisted of the following:	Nov. 26 1993	Nov. 27 1992
Acquired technology and goodwill	$ 11,778	$ 17,670
Licensing agreements	16,057	20,247
Other	4,665	3,528
	32,500	41,445
Less accumulated amortization	12,121	15,867
	$ 20,379	$ 25,578

During 1992, the Company acquired OCR Systems Incorporated and Nonlinear Technologies, Incorporated, for an aggregate purchase price of $6.8 million, of which $6.3 million was allocated to research and development in-process. This amount was expensed at the time of these acquisitions. The Company plans to integrate the acquired technologies into future products.

During 1991, the Company invested $6.0 million in a real estate partnership to acquire land and develop office space for its own use. During 1992, the Company chose to abandon its efforts to pursue the development of land and buildings under this partnership. The Company entered into an agreement with the general partner that dissolved the partnership without recourse to the Company. Accordingly, the investment of $6.0 million was written off in 1992.

note 5
ACCRUED EXPENSES

(in thousands)

Accrued expenses consisted of the following:	Nov. 26 1993	Nov. 27 1992
Rent	$ 1,294	$ 1,671
Royalties	8,270	8,109
Accrued compensation and benefits	13,551	10,617
Sales and marketing allowances	9,164	3,453
Other	7,697	5,849
	$ 39,976	$ 29,699

note 6
INCOME TAXES

(in thousands)

The provision for income taxes consisted of the following:

	Years Ended		
	Nov. 26 1993	Nov. 27 1992	Nov. 29 1991
Current:			
United States Federal	$ 13,818	$ 17,402	$ 9,041
Foreign	6,498	5,232	3,772
State and local	6,019	5,710	2,215
Total current	26,335	28,344	15,028
Deferred:			
United States Federal	(910)	(6,566)	1,053
State and local	(50)	(1,469)	–
Total deferred	(960)	(8,035)	1,053
Charge in lieu of taxes attributable to employee stock plans	8,649	5,611	15,910
	$ 34,024	$ 25,920	$ 31,991

Total income tax expense differs from the expected tax expense (computed by multiplying the United States income statutory rate of 35 percent for 1993, and 34 percent for 1992 and 1991, to income before income taxes) as a result of the following:

	Years Ended		
	Nov. 26 1993	Nov. 27 1992	Nov. 29 1991
Computed "expected" tax expense	$ 31,869	$ 23,640	$ 28,423
State tax expense, net of federal benefit	4,985	3,632	3,904
Research credits	(2,488)	(3,344)	–
Other	(342)	1,992	(336)
	$ 34,024	$ 25,920	$ 31,991

The tax effects of the temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of 1993 and 1992 are presented below:

	Nov. 26 1993	Nov. 27 1992
Deferred tax assets:		
Acquired technology	$ 1,428	$ 2,301
Reserves	3,844	1,979
Deferred revenue	2,270	2,867
Inventory capitalized costs	317	423
Accrued vacation	889	759
Depreciation	1,507	947
Restricted stock compensation	–	310
Investments	424	2,481
Acquired net operating loss carryover	94	92
State taxes	1,461	1,302
Total gross deferred tax asset	12,234	13,461
Deferred tax asset valuation allowance	–	–
Total deferred tax asset	12,234	13,461
Deferred tax liabilities:		
Basis difference of assets from acquisition	(35)	(579)
Typeface production costs	(1,839)	(3,586)
Capital leases	(607)	(503)
Total deferred tax liability	(2,481)	(4,668)
Net deferred tax asset	$ 9,753	$ 8,793

There was no change in the valuation allowance in 1993 or 1992. Deferred income tax expense (benefit) represents the effect of changes in the amounts of temporary differences. The sources of the temporary differences for 1991 arise principally from deferred revenue, typeface production costs, capitalized costs, investment losses not currently deductible, and certain allowances and reserves.

note 7
EMPLOYEE BENEFIT PLANS

Employee stock purchase plan

Under the terms of the Company's Employee Stock Purchase Plan, eligible employee participants purchase shares of the Company's common stock semiannually at the lower of 85 percent of the market price on either the purchase date or the offering date.

Restricted stock plans

The Company's Restricted Stock Option Plan provides for the granting of nonqualified stock options to nonemployee directors and consultants. Option grants are limited to 5,000 shares per person in each fiscal year and are immediately exercisable within a ten-year term. Options generally vest over three years: 25 percent in each of the first two years and 50 percent in the third year. As of November 26, 1993, 155,000 shares were outstanding under this plan, of which 75,000 are vested.

The Company's Restricted Stock Plan 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. As of November 26, 1993, 670,600 shares were outstanding under this plan, of which 91,482 were unvested.

Stock option plan

As of November 26, 1993, the Company had reserved 20,000,000 shares of common stock for issuance under its 1984 Stock Option Plan. This plan 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 percent in each of the first two years and 50 percent in the third year. All options have a five- or ten-year term. Stock option activity for fiscal 1993, 1992 and 1991 consisted of the following:

	Options Available for Grant	Options Outstanding: Number of Shares	Options Outstanding: Price per Share
Balances as of November 30, 1990	3,354,332	6,065,432	$ .04-20.00
Additional shares reserved	2,000,000	–	–
Options granted	(1,748,260)	1,748,260	13.00-27.38
Options exercised	–	(2,195,250)	.04-12.07
Options cancelled	133,674	(133,674)	.58-27.25
Balances as of November 29, 1991	3,739,746	5,484,768	.04-27.38
Options granted	(2,697,212)	2,697,212	13.44-33.88
Options exercised	–	(639,598)	.58-23.82
Options cancelled	1,432,140	(1,432,140)	.58-33.88
Balances as of November 27, 1992	2,474,674	6,110,242	.04-33.88
Additional shares reserved	4,000,000	–	–
Options granted	(2,196,070)	2,196,070	15.13-33.75
Options exercised	–	(1,110,183)	.58-27.25
Options cancelled	199,615	(199,615)	.58-33.75
Balances as of November 26, 1993	4,478,219	6,996,514	$ .04-33.88

Of the options outstanding, there were 3,356,076 options exercisable as of November 26, 1993.

Pretax savings plan

In 1987, the Company adopted an Employee Investment Plan, qualified under Section 401(k) of the Internal Revenue Code, which is a pretax savings plan covering substantially all of the Company's United States employees. Under the plan, eligible employees may contribute up to 18 percent of their pretax salary, subject to certain limitations. There were approximately 720 employees under the plan in 1993 and 580 employees under the plan in 1992. Commencing in 1992, the Company matched a portion of employee contributions. Company matching contributions, which can be terminated at the Company's discretion, were $.6 million and $.5 million in 1993 and 1992, respectively.

Postemployment benefits

In 1990, the Financial Accounting Standards Board issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," to be implemented for years beginning after December 15, 1992. As of November 26, 1993, the Company does not offer these types of benefits and, therefore, does not expect to be impacted by this statement. The Company also does not expect to be materially impacted by SFAS No. 112, "Employers' Accounting for Postemployment Benefits," issued in November 1992, and effective for years beginning after December 15, 1993.

note 8

CAPITAL STOCK

Shareholder rights plan

The Company's shareholder rights 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 $115. The rights will not be exercisable until certain events occur. The rights are redeemable by the Company and expire on July 24, 2000.

Put warrants

In a series of 1993 private placements, the Company sold put warrants entitling the holder of each warrant to sell one share of common stock to the Company at a specified price. During the year, the Company received $474,000 for the sale of warrants to purchase 350,000 shares at exercise prices ranging from $18.50 to $22.13. These warrants expire through January 1994.

The amount related to the Company's potential buyback obligation has been removed from shareholders' equity and recorded as put warrants. At the prevailing market prices for the Company's common stock, there was no dilutive effect on earnings per share in fiscal 1993.

Stock split

On July 9, 1993, the Board of Directors of the Company approved a two-for-one split of the Company's common stock, payable in the form of a stock dividend. The shares were distributed on August 10, 1993, to shareholders of record on July 27, 1993. The consolidated financial statements and notes thereto have been retroactively adjusted to reflect the effects of this split for all periods presented.

note 9

COMMITMENTS AND CONTINGENCIES

(in thousands)

The Company has operating leases for its corporate headquarters, field sales offices and certain office equipment that expire at various dates through 2001. Rent expense for these leases aggregated $10.0 million, $7.2 million and $5.8 million during 1993, 1992 and 1991, respectively. As of November 26, 1993, future minimum lease payments under noncancellable operating leases are as follows:

1994	$ 8,849
1995	8,127
1996	5,060
1997	338
1998	74
1999 and beyond	162
Total minimum lease payments	$ 22,610

The Company has an unsecured $10.0 million bank line of credit that may be used from time to time to facilitate short-term cash flow. The line of credit expires in March 1994. As of, and during the year ended, November 26, 1993, there were no borrowings under this line.

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 the ultimate outcome of these actions will not have a material effect on the Company's financial position.

note 10

FAIR VALUE OF FINANCIAL INSTRUMENTS

(in thousands)

The estimated fair values of the Company's financial instruments are presented below:

	Nov. 26, 1993	
	Carrying Amount	Fair Value
Cash and cash equivalents	$ 94,742	$ 94,742
Short-term investments	141,587	141,856
Put warrants	(6,906)	(6,906)

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and cash equivalents

The carrying amount of cash and cash equivalents approximates fair value because of the short maturity of these instruments.

Short-term investments

Fair value equals the quoted market price. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Put warrants

The carrying amount of put warrants represents their fair value because the maximum amount required to settle the potential obligations under the terms of the put warrants cannot exceed the carrying amount of these instruments.

note 11

INDUSTRY SEGMENT REPORTING AND FOREIGN OPERATIONS

(in thousands)

Adobe and its subsidiaries operate in one dominant industry segment. The Company is engaged principally in the design, development, manufacture and licensing of computer software. Hewlett-Packard Company accounted for more than 10 percent of the Company's total revenue in 1993; no customer accounted for more than 10 percent of the Company's total revenue in fiscal 1992; and Apple Computer, Inc., accounted for more than 10 percent of the Company's total revenue in 1991.

United States operations include revenue and results of operations in North America, South America, Asia/Pacific (excluding Japan) and Australia, as well as licensing revenue recognized on a worldwide basis. Licensing revenue is not available on a geographic basis because the source of licensing revenue is known only by the OEMs' headquarters, and not necessarily by the geographic region providing the revenue stream to the OEMs. European operations primarily include subsidiaries in the Netherlands, the United Kingdom, France, Germany and Sweden, while Japan operations are limited to the subsidiary in Japan. Transfers between subsidiaries are accounted for at amounts that are generally above cost and consistent with rules and regulations of governing tax authorities. Such transfers are eliminated in the consolidated financial statements. Identifiable assets are those assets that can be directly associated with a particular geographic area and subsidiary. Geographic information for each of the years in the three-year period ended November 26, 1993, is presented below:

	Years Ended		
	Nov. 26 1993	Nov. 27 1992	Nov. 29 1991
Revenue:			
United States operations	$ 251,239	$ 223,061	$ 202,669
European operations	41,161	31,458	24,659
Japan operations	31,783	21,043	9,866
Eliminations	(10,726)	(9,631)	(7,541)
	$ 313,457	$ 265,931	$ 229,653
Operating income:			
United States operations	$ 58,396	$ 56,591	$ 71,939
European operations	9,975	4,659	3,146
Japan operations	12,609	7,159	2,808
	$ 80,980	$ 68,409	$ 77,893
Identifiable assets:			
United States operations	$ 444,414	$ 273,733	$ 218,341
European operations	16,682	9,787	7,600
Japan operations	2,261	1,767	1,582
Eliminations	(110,463)	(3,947)	(6,328)
	$ 352,894	$ 281,340	$ 221,195

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 26, 1993, and November 27, 1992, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended November 26, 1993. 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 26, 1993, and November 27, 1992, and the results of their operations and their cash flows for each of the years in the three-year period ended November 26, 1993, in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK
San Jose, California
December 13, 1993

management's report

Management is responsible for all the information and representations contained in the consolidated financial statements and other sections of this Annual Report. Management believes that the consolidated financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances to reflect in all material respects the substance of events and transactions that should be included, and that the other information in this Annual Report is consistent with those statements. In preparing the consolidated financial statements, management makes informed judgments and estimates of the expected effects of events and transactions that are currently being accounted for.

In meeting its responsibility for the reliability of the consolidated financial statements, management depends on the Company's system of internal accounting control. This system is designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of consolidated financial statements in accordance with generally accepted accounting principles. In designing control procedures, management recognizes that errors or irregularities may nevertheless occur. Also, estimates and judgments are required to assess and balance the relative cost and expected benefits of the controls. Management believes that the Company's accounting controls provide reasonable assurance that errors or irregularities that could be material to the consolidated financial statements are prevented or would be detected within a timely period by employees in the normal course of performing their assigned functions.

The Board of Directors pursues its oversight role for these consolidated financial statements through the Audit Committee, which is comprised solely of Directors who are not officers or employees of the Company. The Audit Committee meets with management periodically to review their work and to monitor the discharge of each of their responsibilities. The Audit Committee also meets periodically with KPMG Peat Marwick, the independent auditors, who have free access to the Audit Committee or the Board of Directors, without management present, to discuss internal accounting control, auditing and financial reporting matters.

KPMG Peat Marwick is engaged to express an opinion on our consolidated financial statements. Their opinion is based on procedures believed by them to be sufficient to provide reasonable assurance that the consolidated financial statements are not materially misleading and do not contain material errors.

M. BRUCE NAKAO
Senior Vice President,
Finance and Administration,
Chief Financial Officer,
Treasurer and Assistant Secretary
February 11, 1994

quarterly results of operations *(unaudited)*

(in thousands, except per share data)

1993	Quarter Ended				
	Feb. 26	May 28	Aug. 27	Nov. 26	Year Ended
Revenue	$ 68,535	$ 79,633	$ 78,756	$ 86,533	$ 313,457
Income before income taxes	25,093	23,651	18,663	23,647	91,054
Net income	15,462	14,450	11,354	15,764	57,030
Net income per share	$ .34	$ .31	$ .24	$ .34	$ 1.22
Shares used in computing net income per share	46,082	46,726	47,219	46,457	46,627
Common stock price per share:					
High	$ 22.88	$ 35.75	$ 37.00	$ 24.63	$ 37.00
Low	14.50	18.50	19.25	16.25	14.50

1992	Quarter Ended				
	Feb. 28	May 29	Aug. 28	Nov. 27	Year Ended
Revenue	$ 62,562	$ 69,614	$ 63,046	$ 70,709	$ 265,931
Income before income taxes	21,247	24,247	10,645	13,391	69,530
Net income	13,317	15,203	6,675	8,415	43,610
Net income per share	$ .28	$ .33	$ .14	$ .18	$ .94
Shares used in computing net income per share	47,026	46,820	46,720	45,932	46,650
Common stock price per share:					
High	$ 34.25	$ 29.38	$ 24.63	$ 19.25	$ 34.25
Low	23.63	18.75	15.88	12.63	12.63

1991	Quarter Ended				
	Mar. 1	May 31	Aug. 30	Nov. 29	Year Ended
Revenue	$ 52,600	$ 57,083	$ 57,230	$ 62,740	$ 229,653
Income before income taxes	20,533	21,918	20,285	20,862	83,598
Net income	12,424	13,260	12,780	13,143	51,607
Net income per share	$ .28	$ .29	$ .28	$ .29	$ 1.13
Shares used in computing net income per share	44,892	45,892	46,194	46,418	45,882
Common stock price per share:					
High	$ 24.38	$ 31.50	$ 30.00	$ 28.88	$ 31.50
Low	12.63	22.19	21.63	21.13	12.63

Share and per share amounts have been adjusted for a two-for-one stock split, effective July 1993. The Company's stock is traded on the NASDAQ National Market System under the symbol ADBE. On January 31, 1994, there were 1,019 holders of record of the Company's common stock.

corporate directory

BOARD OF DIRECTORS

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

Charles M. Geschke
President and Chief Operating Officer

William R. Hambrecht
Director

William J. Spencer
Director

Robert Sedgwick
Director

Delbert W. Yocam
Director

EXECUTIVE OFFICERS

Charles M. Geschke
President and Chief Operating Officer

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

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

Colleen M. Pouliot
Vice President, General Counsel and Secretary

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

Stephen A. MacDonald
Senior Vice President and General Manager, Systems Products Division

R. Daniel Putman
Senior Vice President, New Product Development

Transfer Agent / Registrar
Harris Trust Company
of California
Chicago, Illinois

Stock Exchange Listing
NASDAQ
National Market System
Ticker Symbol ADBE

Independent Auditors
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:
Investor Relations Department
Adobe Systems Incorporated
1585 Charleston Road
P.O. Box 7900
Mountain View, California
94039-7900
tel: 415-961-4400

COLOPHON

This annual report was electronically produced entirely with Adobe PostScript software. Typefaces are from the Caflisch Script multiple master and Myriad multiple master families, both of which are part of the Adobe Originals collection.

Copy: *Molly Detwiler, Mark Friedman*
Design: *Lori Barnett, Gail Blumberg, Laurie Szujewska assisted by Jan Seals and Veronica Ramirez*
Portrait Photography: *Peter Fox, Palo Alto, California*
Illustrations: *Richard Tuschman, p. 4; Susumu Endo, p. 6; TRiBe! DeSiGN, p. 16; Mick Wiggins, p. 24*
Prepress: *Metagraphics, Palo Alto, California*
Printing: *Graphic Arts Center, Portland, Oregon*
Paper: *Lustro Dull Recycled, S.D. Warren Company*

Acrobat, the Acrobat logo, Adobe, the Adobe logo, Adobe Dimensions, Adobe Font Folio, Adobe Illustrator, the Adobe Illustrator logo, Adobe Originals, Adobe Photoshop, Adobe Premiere, Adobe Streamline, Adobe Type Manager, ATM, Audition, Caflisch Script, Display PostScript, Distiller, Myriad, PixelBurst, PostScript, the PostScript logo, SuperATM, Type On Call and Wild Type are trademarks of Adobe Systems Incorporated which may be registered in certain jurisdictions. Kids Take the Digital Road and the Kids Take the Digital Road design are service marks of Adobe Systems Incorporated. All other brand or product names or logos are trademarks or registered trademarks of their respective holders.

Copyright © 1994 Adobe Systems Incorporated. All rights reserved. Printed in the USA.

Adobe

Adobe Systems Incorporated
1585 Charleston Road
P.O. Box 7900
Mountain View, California 94039-7900 USA

Adobe Systems Europe B.V.
Europlaza, Hoogoorddreef 54a
1101 BE Amsterdam Z.O.
The Netherlands

Adobe Systems Japan
Swiss Bank House
4-1-8 Toranomon, Minato-ku
Tokyo 105, Japan