ALDUS

DELIVERING
ON THE
PROMISE

ALDUS PAGEMAKER®

THE WORLD'S LEADING DESKTOP PUBLISHING PROGRAM FOR CREATING PROFESSIONAL-LOOKING PUBLICATIONS, FROM BUSINESS DOCUMENTS TO MAGAZINES AND BOOKS.

ALDUS PERSUASION®

A DESKTOP PRESENTATIONS PROGRAM THAT ENABLES BUSINESS USERS AND OTHERS TO PRODUCE OVERHEAD FOILS OR 35MM COLOR SLIDES AND PRINTED SPEAKER-SUPPORT MATERIALS.

ALDUS FREEHAND®

A PRECISION DRAWING, DESIGN, AND ILLUSTRATION PROGRAM THAT COMBINES SKETCHING AND DRAWING TOOLS WITH TEXT MANIPULATION, COLOR, AND SPECIAL EFFECTS.

ALDUS® PREPRINT™

A DESKTOP COLOR-SEPARATION AND IMAGE-ENHANCEMENT PROGRAM FOR COLOR-SEPARATING PAGEMAKER PUBLICATIONS—TEXT, ILLUSTRATIONS, AND PHOTOGRAPHS.

PERSONAL PRESS™

AN ECONOMICAL, EASY-TO-USE DESKTOP PUBLISHING PROGRAM DESIGNED EXPRESSLY FOR NOVICE DESKTOP PUBLISHERS.

SUPERPAINT®

PAINTING AND DRAWING FEATURES COMBINED INTO ONE EASY-TO-USE GRAPHICS PROGRAM.

DIGITAL DARKROOM™

AN IMAGE-PROCESSING PROGRAM FOR ENHANCING, COMPOSING, AND MODIFYING SCANNED PHOTOGRAPHS AND OTHER GRAPHICS.

SUPERCARD®

A MULTIMEDIA PERSONAL SOFTWARE TOOLKIT FOR CREATING CUSTOMIZED APPLICATIONS, SUCH AS INTERACTIVE TRAINING PROGRAMS, MULTIMEDIA PRESENTATIONS, CATALOGS, AND PERSONALIZED PRODUCTIVITY PROGRAMS.

SUPER 3D™

THREE-DIMENSIONAL MODELING AND ANIMATION SOFTWARE FOR ARCHITECTS, ENGINEERS, GRAPHIC ARTISTS, AND OTHERS WITH 3-D MODELING NEEDS.

ACCOLADES

ALDUS FREEHAND

WORLD CLASS AWARD FOR DRAWING/ILLUSTRATION/ANIMATION—
MACWORLD MAGAZINE

BEST IN CATEGORY—*PUBLISH* MAGAZINE READERS' CHOICE AWARDS

PAGEMAKER

BUYER'S CHOICE AWARD, *COMPUTER RESELLER NEWS BENCHMARKS*
—REPRESENTING PREFERENCES OF TOP CORPORATE BUYERS (PC AND
MACINTOSH VERSIONS)

WORLD CLASS AWARD FOR PAGE LAYOUT—*MACWORLD*

BEST DESKTOP PUBLISHING PACKAGE—*MACWORLD* READERS'
CHOICE AWARDS (AUSTRALIA)

BEST IN CATEGORY—*PUBLISH* MAGAZINE READERS' CHOICE AWARDS

BEST SOFTWARE PRODUCT RUNNING UNDER PRESENTATION
MANAGER—*PC USER* READERS' AWARDS (UNITED KINGDOM)

BEST DESIGN AWARD—LEIPZIGER HERBSTMESSE (GERMANY)

BEST IN CATEGORY—*LOTUS* MAGAZINE READERS' CHOICE AWARDS

WORLD CLASS WINNER—*PC WORLD* DESKTOP PUBLISHING
READERS' CHOICE AWARDS

BEST DESKTOP PUBLISHING SOFTWARE—*ICONES* READERS' CHOICE
AWARDS (FRANCE)

PERSUASION

BEST IN CATEGORY—*PUBLISH* MAGAZINE READERS' CHOICE AWARDS

HIGHEST-RATED DESKTOP PRESENTATIONS PRODUCT—*SUCCESS*
MAGAZINE

WORLD CLASS AWARD FOR BUSINESS PRESENTATION GRAPHICS—
MACWORLD

SUPERPAINT

FAVORITE GRAPHICS PROGRAM—*GOVERNMENT COMPUTER NEWS*

BEST IN CATEGORY—*PUBLISH* MAGAZINE READERS' CHOICE AWARDS

WORLD CLASS AWARD FOR PAINT/BLACK-AND-WHITE—*MACWORLD*

SUPERCARD

HONORABLE MENTION, BEST ANIMATION SOFTWARE—*MACUSER*

OTHER AWARDS

PREFERRED MANUFACTURER—*MACINTOSH NEWS* RESELLERS' CHOICE

BEST COMPANIES LIST—*WASHINGTON CEO* MAGAZINE

BEST INTERNATIONAL CUSTOMER SUPPORT—RADIUS INC. (SWEDEN)

It was a year of significant achievements for Aldus Corporation.

We invested: in new people, new markets, new technologies.

We diversified: with new products, new service programs, new subsidiaries.

And we grew: in size, revenues, and fundamental value to our shareholders.

We are delivering on the promise that our customers, our employees, our industry partners, and our investors have seen in Aldus, from the beginning.
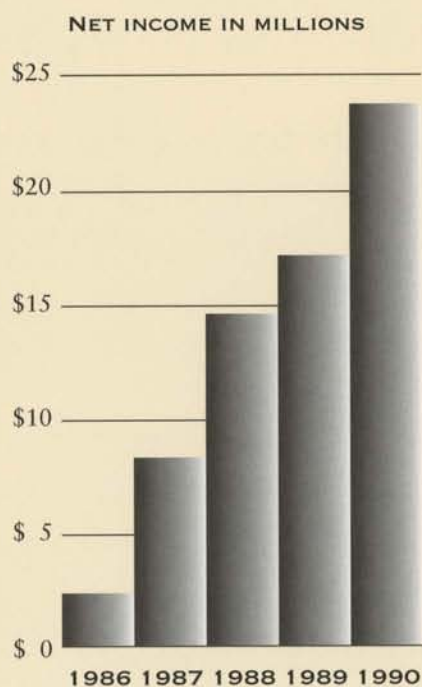
And that promise remains. Ever-expanding computer technology gives us virtually unlimited power to achieve our mission—to create software that helps people throughout the world effectively communicate information and ideas.

FINANCIAL HIGHLIGHTS

	1990	1989	1988	1987	1986
INCOME STATEMENT *(in thousands)*					
Net sales	$ 134,983	$ 98,616	$ 84,127	$ 44,041	$ 12,040
Net income	$ 23,761	$ 17,077	$ 14,773	$ 8,265	$ 2,462
PER SHARE					
Net income	$ 1.63	$ 1.22	$ 1.06	$ .63	$ .20
Weighted average shares outstanding *(in thousands)*	14,557	14,051	13,978	13,080	12,519
BALANCE SHEET *(in thousands)*					
Working capital	$ 91,832	$ 67,841	$ 52,841	$ 37,683	$ 2,737
Total assets	$ 141,181	$ 99,272	$ 76,346	$ 53,288	$ 6,783
Shareholders' equity	$ 115,790	$ 81,069	$ 63,308	$ 43,975	$ 3,796
KEY RATIOS					
Current ratio	5.3	5.5	5.8	6.4	2.0
Return on revenue	17.6%	17.3%	17.6%	18.8%	20.4%
Return on equity	24.1%	23.7%	27.5%	34.6%	96.0%
Revenue per employee	$ 196,000	$ 166,000	$ 174,000	$ 174,000	$ 145,000

Financial highlights for all years shown have been restated to include Silicon Beach
Software Inc., which was acquired in February 1990 through a pooling of interests.

SALES IN MILLIONS

$140	
$120	
$100	
$ 80	
$ 60	
$ 40	
$ 20	
$ 0	
	1986 1987 1988 1989 1990

NET INCOME IN MILLIONS

$25	
$20	
$15	
$10	
$ 5	
$ 0	
	1986 1987 1988 1989 1990

NET INCOME PER SHARE

$1.75	
$1.50	
$1.25	
$1.00	
$ .75	
$ .50	
$ .25	
$ .00	
	1986 1987 1988 1989 1990

MILESTONES

FIRST QUARTER

Aldus Corporation acquires Silicon Beach Software Inc. as a wholly owned subsidiary. The company's entry-level graphics and publishing applications significantly diversify the Aldus family of products.

SECOND QUARTER

Aldus France opens for business.

The Japanese-language edition of PageMaker 3.0 for the Macintosh is released.

Aldus PageMaker 4.0 for the Macintosh is released—beginning a new era in desktop publishing.

Leading prepress vendors Hell Graphics Systems and Crosfield unveil color systems compatible with Aldus' Open Prepress Interface at the DRUPA international print show in Düsseldorf, Germany.

Aldus PrePrint 1.0 color-separation and image-enhancement program for the Macintosh is released.

SuperCard 1.5 is released.

Aldus PageMaker 3.01 for Windows 3.0 is released.

THIRD QUARTER

The Russian-language version of Aldus PageMaker 3.0 for the PC is released.

The release of PageMaker 3.0 for the Macintosh in both traditional and simplified character sets makes Aldus the first U.S. company to localize software for Chinese-language markets.

Aldus launches a support program for imagesetter service bureaus, color prepress houses, and slide service bureaus: a nationwide network of post-production companies serving Aldus customers.

Worldwide sales of Aldus and Silicon Beach Software products reach one million units.

The Aldus Developers Association is formed for third-party software and hardware developers.

FOURTH QUARTER

Aldus Design Team (Aldus FreeHand, PageMaker, and PrePrint), a suite of professional creative tools for the graphic artist, is made available.

Aldus Persuasion 2.0 business presentations program for Windows 3.0 is announced.

Aldus PageMaker 3.01 is updated for latest versions of OS/2 Presentation Manager.

Digital Darkroom 2.0 is released.

Personal Press 1.0 desktop publishing program is released.

DELIVERING
ON THE
PROMISE

TO OUR SHAREHOLDERS

Dear Fellow Shareholder:

By any measure, Aldus Corporation is growing. After a year spent preparing for the opportunities of a new decade, 1990 saw us set our stride confidently.

At year's end, the value of the company's stock had increased 74 percent from 1989. Revenues had grown 37 percent, and our earnings per share increased 33 percent. Silicon Beach Software Inc., which we acquired in February, contributed to our growth, and will continue to provide important long-term strategic value.

In our 1989 report, we discussed other moves to meet our growth objectives—new people, a new organization, a push to develop markets for new products, and the emphasis on our basic quality tenet—to continually improve the way we do business. I'm proud to report that our 1990 results show we're delivering on those efforts.

PAUL
BRAINERD,
founder and
president

And we will continue to deliver. In the short term, the software industry may be affected by the volatile situation in the Middle East and a recessionary economic climate at home and in some of our overseas markets. As I write this, the effects of these events on a young industry are difficult to predict. Nevertheless, we feel Aldus is well positioned to face those uncertainties, with a healthy balance sheet and the imminent release of two major business products for the fast-growing Microsoft Windows market.

In the end, it is of course the customer who is the key to our success. Following this letter, in which I'll outline our main growth strategies, you'll find profiles of five Aldus customers. Together, our plans for the future and our relationships with customers like these

will help ensure that the promise of Aldus continues to be fulfilled—for 1991 and beyond.

OUR GOAL OVER THE NEXT FEW YEARS is to become a major force in microcomputer software—with the revenues, products, and technological innovation such leadership requires.

As the market leader in desktop publishing, we have the experience and resources to continue to diversify our product line for sustained growth. In 1985, all revenue was from PageMaker. By 1990, this flagship product was responsible for only 66 percent of our revenues. And by 1992, an estimated half of our revenues will come from products other than PageMaker.

DIVERSIFYING THE PRODUCT LINE

RANJIT MULGAONKAR, market development manager, works with customers and Aldus engineers to define new products for professional color publishers.

Silicon Beach Software plays a key part in this strategy. Our acquisition of the San Diego company gave us a new line of entry-level graphics and publishing products. Sales of SuperPaint, Digital Darkroom, and Personal Press should benefit from the popularity of the new low-cost Apple Macintosh computers launched in late 1990.

For IBM and compatible PCs, Microsoft's new version of its Windows operating environment is rapidly being adopted, giving us exciting opportunities for developing new software. We will release Aldus PageMaker 4.0 for Windows 3.0 in early 1991, and by midyear we'll release a Windows version of Aldus Persuasion, our award-winning presentations program for the business market.

In the longer term, future versions of Windows will offer a clear path for creating new applications for OS/2, the PC's other graphical

(SEATED) SHELDON FISHER, PRODUCT MANAGER;
KATHY DAVIDS, PRODUCT MARKETING MANAGER;
(STANDING, LEFT TO RIGHT) ED BOMKE, PROJECT
ENGINEER; MAURICE RIZZUTO, PRODUCT
MANAGER; DON CONE, SOFTWARE ENGINEER;
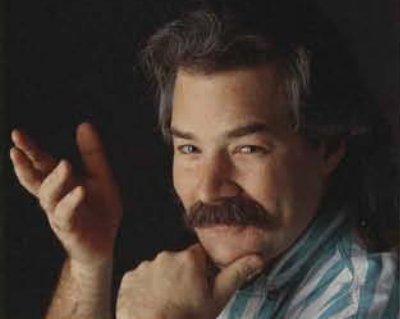STEVE COCHARD, PRINCIPAL ARCHITECT

operating system—and one we have supported from its beginning. This commitment to engineering major products for all three operating systems—Macintosh, Windows, and OS/2—supports our overall product diversification strategy.

TO FURTHER EXPAND OUR PRODUCT LINE and grow the company, we continue to invest in our engineering expertise. In absolute-dollar terms, our spending last year on software development, including research and development, increased by 46 percent over 1989. We expect this investment to continue to increase in future years.

Anticipating the emergence of color publishing in the office, along with the adoption of color copiers and laser printers, our engineers have spent the last two years pioneering color improvements for desktop computers—for both screen representation and printed output. In 1990, we released our first color-separation and image-enhancement product for the graphics market, Aldus PrePrint, which enables customers to specify full color for an entire PageMaker publication, with the cost savings and in-house control that come with desktop publishing.

FUNDING
RESEARCH
AND
DEVELOPMENT

MICHAEL BOURGOIN, software engineer, works on optimizing the representation of color images on monitors, printers, and other computer hardware.

For customers who work in groups, such as magazine and catalog publishers, advertising agencies, and technical publications departments, we'll be exploring opportunities for new applications. With their increasing use of networks, these users need products that help them manage the complex, shared processes involved in pro-

ducing printed communications. Providing tools for this workgroup market is a logical extension of our current products.

OUR SEARCH FOR LEADING-EDGE TECHNOLOGIES and new products to address customer needs has taken us beyond our own horizons.

Our acquisition of Silicon Beach Software and its application SuperCard gave us the technology to explore the emerging arena of multimedia—technology that integrates sound, video, and animation or motion with computer-generated text or graphics files.

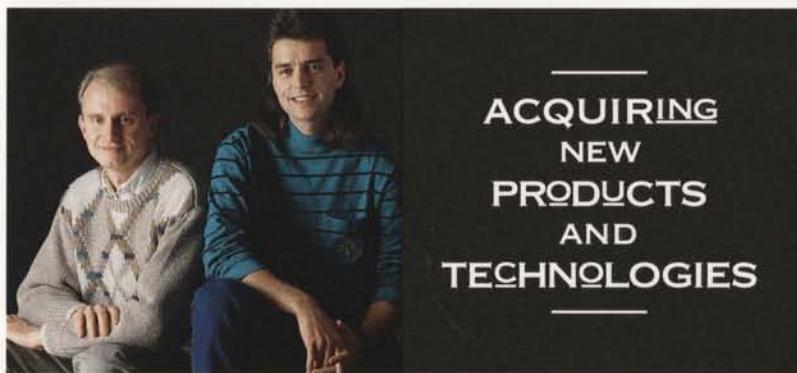**ACQUIRING NEW PRODUCTS AND TECHNOLOGIES**

We've joined with Oracle Corp. and PageAhead Software Inc. to enable corporate users of computerized database management systems to retrieve directory and catalog data stored in a computer and convert it into publishable form, while still running PageMaker.

BRIAN HILST AND AL GASS were independent software engineers who wrote a code that improves the on-screen creation of graphics. They—and their code—are now part of the Aldus family.

We're also looking at new technologies for our key competitive edge—ease of use. Along that line, staff from Aldus Europe are working with the Artificial Intelligence Applications Institute at Edinburgh University, which specializes in applying artificial-intelligence technologies to a wide variety of human endeavors.

ENTIRELY NEW MARKETS can result from such new developments. And both technology and the marketplace are important in achieving our long-term growth objectives.

PageMaker, for example, began life as a graphic-arts tool for publishing. With PageMaker's evolution to a worldwide standard, its following has become more diverse—graphic designers, layout art-

ists, writers and editors have been joined by administrators and managers, sales and marketing people, legal professionals, and con-

IDENTIFYING NEW MARKETS

sultants. Each group now makes up its own market, with distinct needs. To focus more closely on these newer markets, we have formed two groups within our Marketing Department: Business Communications and Graphic Arts, each with its own product line of PC- or Macintosh-based applications.

STEVE LETT, JOE CORTALE, RANDY HAGIN, TIM BUCKLEY— the Aldus North America sales managers and their director have built a national sales force to support Aldus' dealer channels.

In software retailing, we've seen the growth of corporate reseller chains, superstores, and mail-order houses. During 1990, Aldus North America took the lead in developing new merchandising relationships with these resellers, which contributed to a 57 percent increase in the sales division's revenues over 1989.

In the education market, for example, we now package special versions of our leading products at reduced prices, and have authorized hundreds of designated resellers and campus bookstores to sell them. In the government arena, we have won several long-term sub-contracts to provide our products as part of integrated hardware and software systems.

OUR STRENGTH IN INTERNATIONAL MARKETS continues to make a major contribution to our growth. In 1990, 48 percent of our revenues came from outside the U.S.

With the new mood for unity—economic and political, East and West—Europe is becoming the largest software market in the world, offering us exciting opportunities we've already begun to seize. And,

MANAGERS OF ALDUS'
NEWEST SUBSIDIARY,
ALDUS FRANCE,
PICTURED HERE OUTSIDE
THE NEW ENTRANCE TO THE
LOUVRE. FRANCE IS EUROPE'S
SECOND-LARGEST MARKET
FOR PERSONAL COMPUTERS.

(LEFT TO RIGHT) PHILIPPE DE SOUZA,
GENERAL MANAGER; ARNAUD GUITRY
AZAM, FINANCIAL CONTROLLER;
LUC MARIN, MARKETING MANAGER;
RÉGIS HABERT, SALES & TRAINING MANAGER;
PHILIPPE RICHARD, TECHNICAL MANAGER

with extensive European operations already in place, we are poised to reap the benefits. Aldus France, for example, is expected to boost our sales in Southern Europe significantly.

Aware of the potential in the rapidly opening markets to the east, Aldus Europe established an Eastern Europe business group based in the United Kingdom. The group has already shipped a Russian version of PageMaker 3.0 for the PC, with both Cyrillic and Latin characters, for use in the Soviet Union—where, by the end of 1990, the number of installed PCs had tripled. Aldus Europe is working closely with the Soviet state publishing committee and U.S. hardware vendors on possible future joint ventures.

Expansion is also the hallmark of Aldus Pacific Rim, which in 1991 we expect to be the fastest-growing of our sales divisions, both for our European- and Asian-language products. With the advent of Asian versions of Windows 3.0, the PC platform will have the graphical ability to display complex ideographs and other aspects of Asian writing systems. And with this increased power of the microcomputer, Japan in particular will see the same shift from dedicated to desktop computers that occurred in the U.S. in the 1980s.

As in Europe, Aldus is already well established in the region and has the expertise to capitalize on Asia's adaptation to desktop technology. PageMaker was the first English-language program on the Macintosh to be localized into Chinese, and the second to operate

under Windows in Japanese. This kind of experience and commitment should enable Aldus to become a leading supplier of desktop software—worldwide.

IT'S THE PEOPLE WHO WORK at Aldus who make us successful. To be a leader, we must continue to hire, reward, and retain a highly skilled and committed team. Planned management of employee growth guides our business decisions, while productivity and quality-improvement processes help us improve the effectiveness of existing operations. At the same time, we've added people where the need and benefit are clear. Reflecting both this philosophy and the addition of the Silicon Beach Software staff, our total numbers increased from 500 in 1989 to more than 800 in 1990.

ATTRACTING
STRONG
TALENT

LORI BIRTLEY, product manager, was hired not only for her extensive background in personal computer software, but also because she fit the "Aldusian" profile: a bright, enthusiastic hard worker.

Managed growth, together with our commitment to quality and excellence, makes us a challenging—and fulfilling—company to work for. Employees' personal interests are given room inside the company. A grassroots environmental task force, for example, has increased awareness of the company's commitment to environmentally safe products and packaging. And our Innovation Program funds feasibility studies of employees' ideas for new business propositions.

CORE VALUES OF OUR CORPORATION center on relationships among people: our employees and our customers, our local communities, our industry partners, and our shareholders. Above all, we believe our relationship with the customer is critical to the continued success of the company.

Beginning with the CustomerFirst℠ program at the end of 1989, Aldus North America has introduced a range of innovative programs to make us a leader in service—both directly to the buyers of our products and to our partners in the industry.

CustomerFirst offers a variety of paid subscription options to meet our customers' technical-support needs—whether they're working for a Fortune 1000 company or from the spare room. Needs for high-quality printed output, in particular, are expanding. So businesses that produce the best possible output for our customers' publications, graphics, presentations, and color prepress work can now qualify as authorized Aldus Imaging Centers.

Helping customers get the most from our software is also the goal of our Authorized Training Program. In 1990, we began upgrading our proprietary training curriculum, and added staff to support it. And we formed an association for software and hardware developers who create products and extensions compatible with Aldus products.

We depend on the quality of our people, on the needs of the customer, and on the link between customer and product. These relationships carry with them a promise: that Aldus will continue to offer its customers better ways of communicating information and ideas. Our proven ability to meet their needs will, in turn, build the long-term value of your stock.
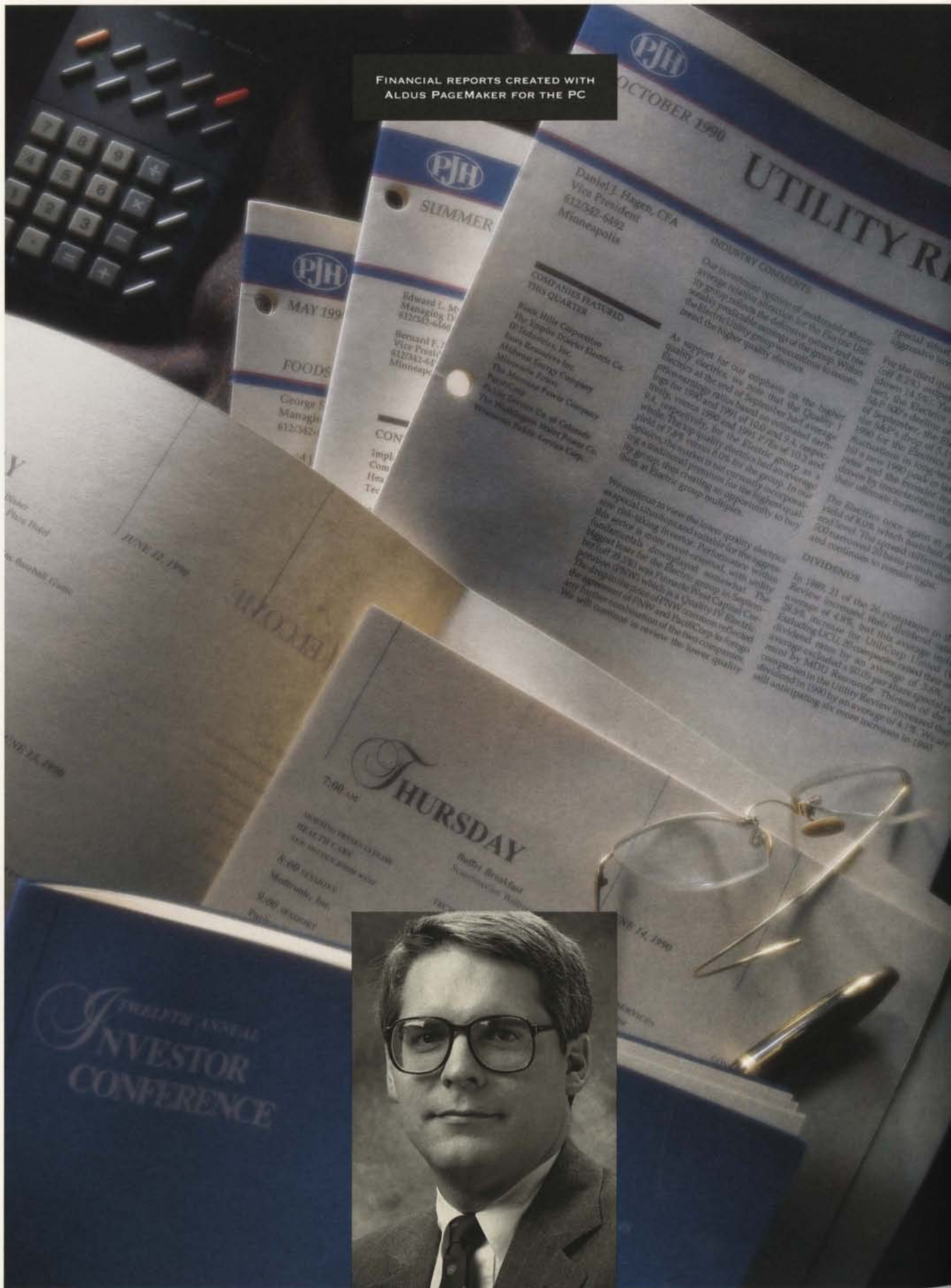
Paul Brainerd, President
February 5, 1991

THE PROMISE OF THE FUTURE

BOB KLEIBER
ASSISTANT VICE PRESIDENT
PIPER, JAFFRAY & HOPWOOD INC.
MINNEAPOLIS

PIPER, JAFFRAY & HOPWOOD

The promise of the future lies with Aldus' customers. Every communication challenge they face is an opportunity for the company.

Helping people communicate effectively has been the Aldus mission all along. In 1990, however, its marketing and engineering specialists began to examine how that foundation could inform the company's future direction as it looked beyond its origins in desktop publishing. They devised a model of the communication process that serves for any form of communication, from a community newsletter to a sales presentation to an annual report.

CONTENT	FORM	PRESENTATION
TEXT	DESIGN	PRINTED MEDIA
GRAPHICS	PRODUCTION	PROJECTED MEDIA
NUMERICAL DATA	POST-PRODUCTION	MULTIMEDIA

PROCESS MANAGEMENT
FILE MANAGEMENT, PROJECT MANAGEMENT

Charting the communication process made Aldus' role even clearer: to provide the customer with the best software tools for each step of the process.

THE FIRST PHASE—THE CONTENT—is simply the compilation of information, ideas, and images.

The Minneapolis-based investment firm of Piper, Jaffray & Hopwood acquires a great deal of information about industries and businesses. Each month, Piper Jaffray's research department uses PageMaker and PCs to compile the 50 to 60 reports on companies and industry segments that the firm covers for institutional and retail investors.

For Bob Kleiber and his desktop publishing staff of two, getting the content—the facts—right is the most

FINANCIAL REPORTS MAKE UP THE BULK OF PUBLISHED MATERIALS FROM PIPER JAFFRAY'S RESEARCH DEPARTMENT. DRAFT COPY IS COMBINED WITH CHARTS AND TABLES INTO A LAYOUT DESIGNED AND SET UP IN ALDUS PAGEMAKER, WHICH ALSO SERVES AS THE REVIEW, EDITING, AND PRODUCTION MEDIUM.

important part of the communication process. Yet their reports must also *look* professional.

"PageMaker is fast and very efficient, especially when it comes to importing charts and graphs," Kleiber says. "It allows us to put a report together as one piece."

Kleiber estimates that an eight-page report can be taken to the proofing stage in one day, compared with three days using traditional typesetting. "And we can make changes—so common in the volatile financial industry—right up to the last minute."

FOR OTHER COMMUNICATORS, FORM—the organization and appearance of numbers, words, photographs, and illustrations—contributes significantly to getting the message across.

In creating the 1990-91 Catalog and Viewbook for the California College of Arts and Crafts, Cronan Design's Michael Cronan and Michael Borosky decided to "get out of the way as much as possible," as Cronan puts it. "The best design really designs itself," he says.

To please their client and to preserve its national reputation among art schools, notes Borosky, the quality of the design was critical. "We wanted to reflect the spirit of the school—big, colorful, fun. So we made quite a departure from earlier catalogs. Each page is a strong visual statement about the college and its students."

PageMaker's ability to print thumbnail sketches of design concepts and quick laserproofs at key checkpoints in the production process led to what Cronan calls "instant feedback loops," which meant the design firm could test ideas with the college administration much faster than it could have in the past.

MICHAEL CRONAN
OWNER
CRONAN DESIGN INC.
SAN FRANCISCO

COLLEGE CATALOG
CREATED WITH ALDUS PAGEMAKER
FOR THE MACINTOSH

CALIFORNIA COLLEGE OF ARTS AND CRAFTS

SLIDE PRESENTATION CREATED
WITH ALDUS PERSUASION
FOR THE MACINTOSH

ANGUS KINLOCH
MARKETING DIRECTOR
RCW COLOUR SLIDES LTD.
LONDON

COOPERS & LYBRAND

By turning the computer into a tool that structures the creative process itself, Cronan says, "PageMaker has revolutionized design."

ONCE COMPLETED, THE STORY IS PRESENTED to the audience—through print, projection, or display.

Where the message is intended for groups of people, many communicators prefer to project the information on the screen, using overhead presentation foils or 35mm slides.

At times of peak workload, the London office of international accounting firm Coopers & Lybrand uses the service bureau RCW Colour Slides Ltd. to supplement the work of its in-house slide-production department.

RCW's Marketing Director Angus Kinloch recalls when his firm had to produce 180 slides for a partners conference that Coopers & Lybrand was to hold in Australia. "The only way we could achieve the objective in the time available was to design the 35mm slides in London, but image them [have them produced] in Australia," using a compatible service bureau there.

TEXT, CHARTS, TABLES, AND OTHER GRAPHIC ELEMENTS FOR THESE COOPERS & LYBRAND CONFERENCE SLIDES WERE CREATED ENTIRELY WITH ALDUS PERSUASION, AND THEN OUTPUT AS 35MM SLIDES FOR MOUNTING AND PRESENTATION.

For slide design and production, RCW uses Aldus Persuasion on the Apple Macintosh. RCW staff created the presentation directly on the Macintosh screen, completing it in time to send the file by modem to Australia. Transmission, imaging, processing, and delivery took 14 hours, as opposed to the several days the process used to take.

"In the meantime," Kinloch says, "the delegate who was to give the presentation was still on his 26-hour flight to Australia—we were able to deliver the slides to his hotel hours ahead of his arrival in the country."

Kinloch says this kind of service is possible "only because Aldus has made the world its market, with PC and Macintosh computers supported across national borders."

As communication—and language itself—becomes more multinational, computer users have come to expect greater possibilities from their software than ever before.

Yuichi Inomata thinks Aldus FreeHand passes the test. Inomata, founder and publisher of *MdN* magazine in Tokyo, uses Aldus' design and illustration program to create kanji characters for Japanese printing, as well as for graphic design.

"Creating kanji characters has led to deeply interesting and satisfying work for me," he says. "Aldus FreeHand has given me the ability to work with a feeling of freedom and ease. It saves me energy as well as time."

The experience Inomata has gained from using the program has turned him into something of an advocate for computer-based graphic design. It led him to launch *MdN*, whose audience is desktop publishers and designers. And in the future, he says, "I hope to introduce more people to the design possibilities of the Macintosh."

FINALLY, THERE IS THE UNDERLYING PROCESS: the management of the flow of work from content through form to presentation. Source files must be found or set up; projects structured and organized; the work scheduled, reviewed, and approved.

Medical illustrator Patrick Lynch and radiologist Dr. Carl Jaffe at the Yale University School of Medicine in New Haven, Connecticut, create diagnostic-training programs for practicing physicians, hospital residents and interns. One of their tools is SuperCard.

THESE PAGES ARE FROM *MDN*, A JAPANESE GRAPHIC DESIGN MAGAZINE PRODUCED ON THE MACINTOSH. PUBLISHER YUICHI INOMATA CREATED THE ART CONTEST ILLUSTRATION WITH ALDUS FREEHAND.

YUICHI INOMATA
OWNER
MdN CORPORATION
TOKYO

MdN ART CONTEST

世紀のデザインワークは
acintoshから始まる！

Macintoshを使ったハイパーデザイナーへの登竜門

MdN Grand prix
作品募集のお知らせ

CONTEST ILLUSTRATION CREATED
WITH ALDUS FREEHAND

File Contents

LAD Proximal 50% Stenosis

[Steiber]

LAD

LAD

Circ

Circ

Contents

Outline

View
Cranial LAO

Exit Back Up Prev Next

Though multiple non-significant narrowings of the circumflex vessel are visible, this cranial LAO view profiles a 50% LAD lesion, that by ECG and thallium studies was believed to be a culprit lesion.
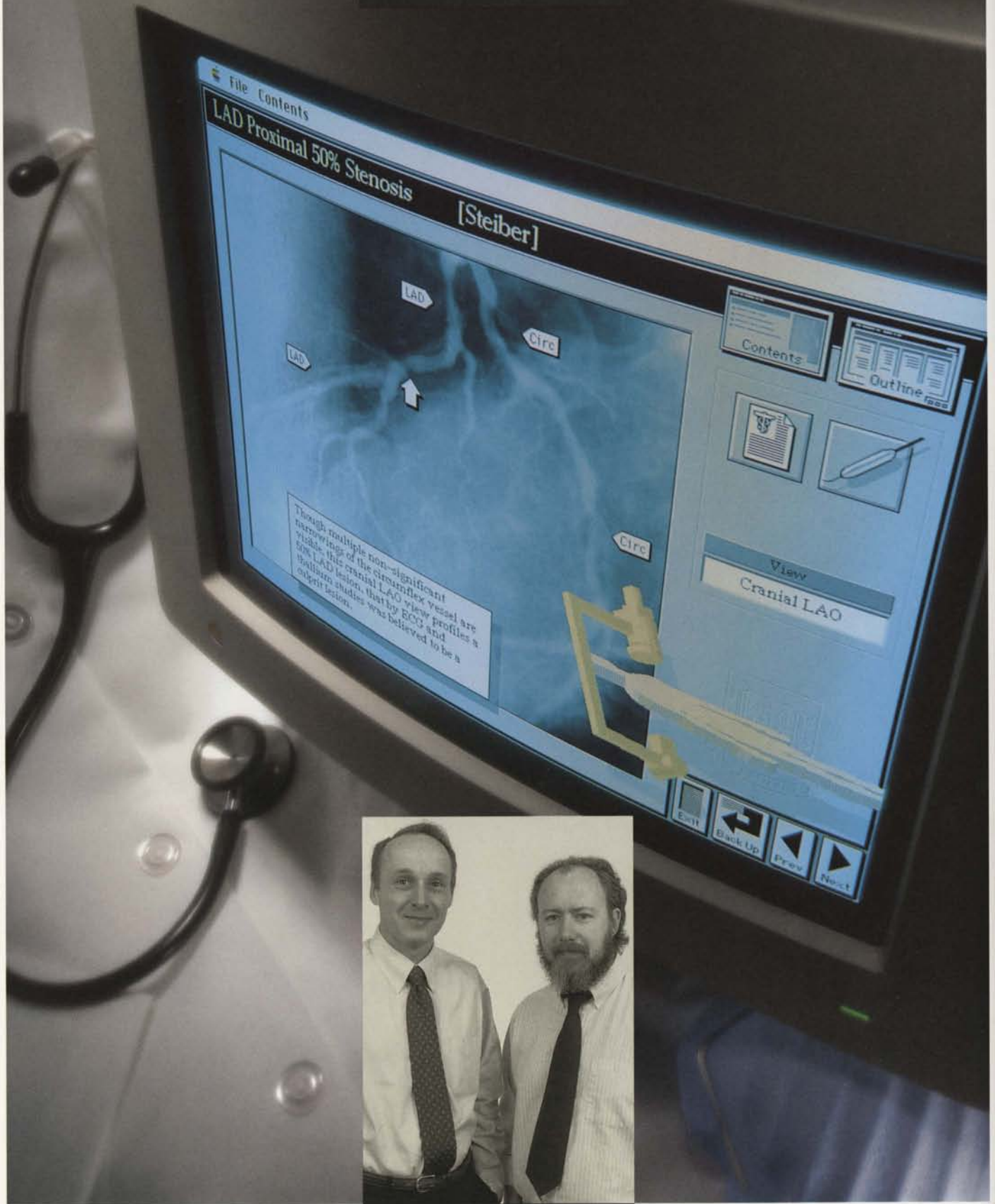
DR. CARL JAFFE, PROFESSOR OF DIAG-
NOSTIC RADIOLOGY AND INTERNAL
MEDICINE, AND PATRICK LYNCH, DIRECTOR
OF BIOMEDICAL MEDIA PRODUCTION

YALE UNIVERSITY SCHOOL OF MEDICINE

Diagnosing coronary heart disease is primarily done through X-rays, but as radiation carries its own risk, a patient can tolerate only limited exposure. Moreover, X-ray images are often hard to interpret.

With Lynch and Jaffe's SuperCard project, physicians take an armchair guided tour of the patient's constricted arteries. Lynch uses the multimedia software to assemble the X-ray views, labeling the blockages, and adding Jaffe's descriptive text.

Doctors can linger over a view, return to a previous one, and check cross-references—all without affecting the patient.

"SuperCard makes it easy to keep track of all the parts of a training project; you don't have to keep all the information in your head," Lynch says.

Jaffe agrees. "You could easily lose control of the many linkages among a project's elements, but SuperCard uniquely handles something that's inherently complex."

Such ease of use is the competitive edge intrinsic to every Aldus product. It is also the standard to which its future products will conform, regardless of which phase of the communication process they address.

And as microcomputer technology evolves, Aldus will continue to move beyond desktop publishing and the graphic arts to provide customer solutions for the entire process of communication.

THIS IMAGE OF A HUMAN HEART, SHOWING CORONARY BLOCKAGES, WAS CREATED WITH SUPERCARD. THE STICK-FIGURE GRAPHIC OF THE PATIENT LYING BENEATH THE X-RAY CAMERA, RENDERED IN SUPER 3D, SHOWS THE ANGLE OF VIEW.

NINETEEN NINETY
FINANCIAL
REVIEW

Management's Discussion and Analysis
ALDUS CORPORATION

SILICON BEACH SOFTWARE ACQUISITION

During 1990, Aldus Corporation ("Aldus") completed the acquisition of a San Diego-based microcomputer software publisher, Silicon Beach Software Inc. ("Silicon Beach Software"). The acquisition broadened Aldus' Macintosh-based product offerings with the addition of SuperPaint, SuperCard, Digital Darkroom, Super 3D, and, in December, Personal Press. The acquisition has been accounted for as a pooling of interests. Accordingly, Aldus' financial statements have been restated to include the accounts and results of operations of Silicon Beach Software for all periods presented. In December 1990, Aldus, on behalf of Silicon Beach Software shareholders, registered 981,000 shares of the Aldus common stock exchanged in the acquisition. The registration was closed in January 1991 after all the registered shares had been sold by the Silicon Beach Software shareholders.

NET SALES

(dollar amounts in thousands)

	1990	CHANGE	1989	CHANGE	1988
Net sales	$134,983	37%	$98,616	17%	$84,127

Aldus' annual sales are affected by a number of factors, including the release of new products and enhancements to existing products, growth of microcomputer sales, changes in pricing policies, fluctuations in foreign currency exchange rates, and entry into new geographic markets.

Net sales grew during 1990, primarily as a result of increased unit volume. Sales were boosted by the release of Aldus PageMaker 4.0 for the Macintosh in May and Aldus PageMaker 3.01 for Microsoft Windows 3.0 in June, as well as the growing popularity of Aldus FreeHand and Aldus Persuasion. Secondary factors included an increase in the price of Aldus PageMaker 4.0 for the Macintosh, upgrade revenue, and the favorable effects of foreign currency fluctuations during the year.

In 1989, Aldus' annual sales growth slowed due to a general slowdown in microcomputer sales and the timing of major product releases—no major new PC or Macintosh version of PageMaker was released in 1989.

Aldus' emphasis on the international market has contributed significantly to the growth in sales. International sales for 1990, 1989, and 1988 were $65.2 million, $46.6 million, and $32.3 million, respectively. International sales increased 40 percent from 1989 to 1990 and 44 percent from 1988 to 1989. International growth can be attributed primarily to the expansion into additional European and Pacific Rim markets and the continuing introduction of Aldus products localized for individual countries and their languages. Aldus France SARL ("Aldus France") began operations in April 1990—an addition to Aldus' other European subsidiaries: Aldus U.K. Ltd. (established in 1989), Aldus Software GmbH ("Aldus Germany," established in 1988), Aldus Sverige AB ("Aldus Sweden"), and Aldus Europe Ltd. These subsidiaries give Aldus a strong sales and distribution system to serve the major European markets as they evolve toward a common marketplace. In Japan, an agreement was signed in 1989 between Aldus and Something Good Inc. for the codevelopment and distribution of Japanese-language versions of certain Aldus products.

Because a significant portion of Aldus' international sales is denominated in foreign currencies, Aldus' consolidated sales are affected by fluctuations in foreign currency exchange rates. With the weakening of the U. S. dollar in 1990, fluctuations in exchange rates resulted in a 5 percent increase in consolidated sales. In 1989, with the strengthening of the U.S. dollar, fluctuations in exchange rates resulted in a 2 percent decrease in consolidated sales.

Aldus will continue to expand its worldwide sales and distribution system by adding distributors or subsidiaries as warranted by local market conditions. Accordingly, Aldus expects continued growth in international sales.

COST OF SALES

(dollar amounts in thousands)

	1990	PERCENTAGE OF NET SALES	CHANGE	1989	PERCENTAGE OF NET SALES	CHANGE	1988	PERCENTAGE OF NET SALES
Cost of sales	$26,433	19.6%	26%	$20,969	21.3%	26%	$16,611	19.7%

Cost of sales includes the purchase and duplication of disks, printing of user manuals, assembly, and royalty costs associated with certain software incorporated into Aldus products.

The decrease in cost of sales as a percentage of net sales in 1990 was the result of price increases on certain Aldus products, reduced product costs, and a shift in the sales mix toward higher-margin products.

The increase in cost of sales in 1989 was the result of the introduction of Aldus FreeHand and Aldus Persuasion to the Aldus product line in 1988. Both Aldus FreeHand and Aldus Persuasion require royalty payments and, consequently, have lower margins than PageMaker.

SALES AND MARKETING

(dollar amounts in thousands)

	1990	PERCENTAGE OF NET SALES	CHANGE	1989	PERCENTAGE OF NET SALES	CHANGE	1988	PERCENTAGE OF NET SALES
Sales and marketing	$44,061	32.6%	39%	$31,734	32.2%	26%	$25,208	30.0%

The 1990 increase in sales and marketing expenses is the result of expansion of Aldus' sales and marketing staff, including the opening of Aldus France, as well as increased marketing efforts connected with the 1990 release of PageMaker 4.0 for the Macintosh, PageMaker 3.01 for Microsoft Windows 3.0, PrePrint, SuperCard 1.5, Digital Darkroom 2.0, and Personal Press.

Sales and marketing expenses for 1989 increased due to the inclusion of the operations of Aldus Germany for an entire year, as well as domestic promotional programs Aldus initiated during the second half of the year to stimulate sales and reduce distribution channel inventory.

GENERAL AND ADMINISTRATIVE

(dollar amounts in thousands)

	1990	PERCENTAGE OF NET SALES	CHANGE	1989	PERCENTAGE OF NET SALES	CHANGE	1988	PERCENTAGE OF NET SALES
General and administrative	$18,797	13.9%	46%	$12,893	13.1%	13%	$11,372	13.5%

The increases in general and administrative expenses for 1990 and 1989 are nearly proportional to increases in sales for those years. The increases reflect the added administrative staff and resources necessary to support expansion of Aldus' operations.

SOFTWARE DEVELOPMENT COSTS

(dollar amounts in thousands)

	1990	PERCENTAGE OF NET SALES	CHANGE	1989	PERCENTAGE OF NET SALES	CHANGE	1988	PERCENTAGE OF NET SALES
Research and development	$11,736	8.7%	35%	$8,666	8.8%	30%	$6,689	8.0%
Amortization of capitalized software development costs	$3,719	2.8%	15%	$3,231	3.3%	(19%)	$3,993	4.7%

The increase in research and development costs in 1990 and 1989 primarily reflects expansion of Aldus' engineering staff and related costs to support the continued emphasis on developing new products and enhancements of existing products. The management of Aldus believes that continued investment in research and development is critical to Aldus' growth and competitive position in the marketplace. Aldus anticipates that research and development costs will continue to increase in 1991.

Amortization of capitalized software costs increased in 1990 due primarily to the shipment of Aldus PageMaker 4.0 for the Macintosh. Amortization of capitalized development costs declined in 1989 as no significant product releases occurred that year and capitalized software costs related to certain PageMaker versions reached the end of their amortization period. Management expects amortization of software development costs to increase in 1991, as the anticipated release of new products, including PageMaker 4.0 for Windows, Aldus FreeHand 3.0, and Aldus Persuasion for Windows, initiates amortization of previously capitalized development costs.

INTEREST INCOME

(dollar amounts in thousands)

	1990	PERCENTAGE OF NET SALES	CHANGE	1989	PERCENTAGE OF NET SALES	CHANGE	1988	PERCENTAGE OF NET SALES
Interest income	$5,051	3.7%	36%	$3,710	3.8%	63%	$2,278	2.7%

The increase in interest income for 1990 and 1989 reflects the growth of Aldus' investment portfolio. Yields on investments in 1990 remained comparable to 1989.

PROVISION FOR INCOME TAXES

(dollar amounts in thousands)

	1990	PERCENTAGE OF NET SALES	EFFECTIVE TAX RATE	1989	PERCENTAGE OF NET SALES	EFFECTIVE TAX RATE	1988	PERCENTAGE OF NET SALES	EFFECTIVE TAX RATE
Provision for income taxes	$11,504	8.5%	32.6%	$8,424	8.5%	33.0%	$6,844	8.1%	31.7%

An analysis of differences between the statutory and effective income tax rates is provided in Note 7 to the Consolidated Financial Statements.

The Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes," which was issued in 1987, requires an asset-and-liability approach for financial accounting and reporting for income taxes, and replaces the income statement approach inherent in current income tax accounting standards. The new standard requires that deferred tax liabilities be adjusted currently for the effects of changes in tax laws or rates. The standard is also more restrictive in the recognition of deferred tax assets. The standard's effective date is for fiscal years beginning after December 15, 1991. Aldus plans to implement the standard in 1992 and does not expect the adoption of the standard to have a material effect on the Consolidated Financial Statements.

Management's Discussion and Analysis
ALDUS CORPORATION

Aldus' financial condition remained strong as of December 31, 1990. Cash generated internally exceeded cash required to support operations, and as a result, cash and cash equivalents and marketable securities increased $16.6 million during 1990 to a total of $76.2 million at year end.

Net cash generated by operations during 1990 totaled $27.7 million, including $31.5 million from net income plus non-cash depreciation and amortization. Accounts receivable grew $5.9 million due to an increase in sales volume. The net increase of $2.3 million in accounts payable and accrued liabilities, deferred technical support, and current and deferred income taxes reflects the overall growth of Aldus' operations.

Excluding net sales of marketable securities and other investments, cash used by investing activities totaled $18.8 million, of which $9.9 million was invested in software technology and capitalized software development costs and $9.2 million was invested in equipment and leasehold improvements. Aldus anticipates that 1991 investments in software technology, capitalized software, and equipment and leasehold improvements will increase somewhat compared with 1990. The actual level of spending will be dependent on a variety of factors, including general economic conditions and Aldus' business requirements.

Net cash provided by financing activities during 1990 totaled $7 million, including $4.1 million and $3.5 million from the exercise of stock options and the related tax benefits to Aldus, respectively.

Aldus has two unsecured lines of credit, a working capital line and a foreign exchange line. The $2.5 million working capital line, which expires April 30, 1991, generally bears interest at the bank's prime rate. The $4 million foreign exchange line is used to hedge foreign-denominated receivables for up to one year. As of December 31, 1990, no amounts were outstanding on these lines.

Historically, working capital needed to finance Aldus' growth has been provided by cash flow from operations and the sale of common stock. Management believes that cash generated from operations will provide sufficient funds for working capital needs, acquisitions, purchases of software technology, and increased research and development in the foreseeable future. Aldus' working capital at December 31, 1990, was $91.8 million.

Consolidated Balance Sheets

ALDUS CORPORATION

DECEMBER 31,	1990	1989
ASSETS		
Current assets:		
Cash and cash equivalents	$ 62,386,558	$ 44,505,595
Marketable securities	13,781,073	15,035,232
Trade accounts receivable, net of allowance		
for doubtful accounts of $523,000 and $200,000	22,667,057	13,700,610
Inventories (Note 2)	5,413,222	2,631,464
Deferred income taxes (Note 7)	5,952,000	4,115,000
Prepaid expenses	3,013,035	2,991,316
Total current assets	113,212,945	82,979,217
Equipment and leasehold improvements, at cost	24,651,632	14,840,637
Less accumulated depreciation and amortization	11,380,135	7,292,216
	13,271,497	7,548,421
Software development costs (Note 3)	12,801,350	6,558,884
Note receivable from and investment in affiliate (Note 4)	1,575,000	1,750,000
Other assets	320,628	435,411
	$ 141,181,420	$ 99,271,933
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 5,288,846	$ 2,701,709
Accrued compensation and benefits	2,125,343	2,430,175
Accrued royalties	766,448	1,030,300
Accrued promotional costs	2,458,818	1,984,202
Other accrued liabilities	5,294,427	2,574,067
Deferred technical support revenue	1,579,807	717,773
Income taxes payable (Note 7)	3,867,000	3,699,990
Total current liabilities	21,380,689	15,138,216
Lease obligations, net of current portion	—	570,446
Deferred income taxes (Note 7)	4,011,000	2,494,000
Commitments (Note 8)		
Shareholders' equity (Note 6):		
Convertible preferred stock—2,000,000		
shares authorized; none outstanding	—	—
Common stock— 40,000,000 shares		
authorized; 14,123,506 issued and		
outstanding (13,560,869 in 1989)	49,275,587	41,138,274
Retained earnings	65,386,133	41,114,833
Translation adjustments	1,128,011	(1,183,836)
Total shareholders' equity	115,789,731	81,069,271
	$ 141,181,420	$ 99,271,933

See accompanying notes.

Consolidated Statements of Income

ALDUS CORPORATION

YEARS ENDED DECEMBER 31,	1990	1989	1988
Net sales	$134,983,442	$ 98,616,071	$ 84,126,859
Cost of sales	26,432,678	20,968,597	16,611,104
Gross margin	108,550,764	77,647,474	67,515,755
Sales and marketing	44,060,847	31,734,493	25,207,804
General and administrative	18,797,123	12,893,139	11,372,145
Software development costs:			
Research and development	11,735,700	8,665,803	6,688,576
Amortization of capitalized software development costs	3,719,073	3,230,680	3,992,745
Income from operations	30,238,021	21,123,359	20,254,485
Interest income, net	5,051,423	3,709,963	2,277,500
Other income (expense), net	(24,753)	667,684	(914,812)
Income before provision for income taxes	35,264,691	25,501,006	21,617,173
Provision for income taxes (Note 7)	11,504,000	8,424,000	6,844,000
Net income	$ 23,760,691	$ 17,077,006	$ 14,773,173
Net income per share	$ 1.63	$ 1.22	$ 1.06
Weighted average number of common shares	14,557,000	14,051,074	13,977,933

See accompanying notes.

Consolidated Statements of Shareholders' Equity

ALDUS CORPORATION

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	RETAINED EARNINGS	TRANSLATION ADJUSTMENTS	TOTAL
Balance, December 31, 1987	12,087,994	$ 32,954,341	$ 11,021,154	$ —	$ 43,975,495
Exercise of stock options (Note 6)	765,156	516,524	—	—	516,524
Elimination of deferred tax liability—Silicon Beach Software	—	149,981	—	—	149,981
Income tax benefit related to stock options (Note 6)	—	4,175,471	—	—	4,175,471
Shareholder distribution —Silicon Beach Software	—	—	(64,500)	—	(64,500)
Currency translation adjustment, net of deferred taxes of $74,000	—	—	—	(218,274)	(218,274)
Net income	—	—	14,773,173	—	14,773,173
Balance, December 31, 1988	12,853,150	37,796,317	25,729,827	(218,274)	63,307,870
Exercise of stock options (Note 6)	707,719	850,177	—	—	850,177
Capital contribution —Silicon Beach Software	—	300,000	—	—	300,000
Income tax benefit related to stock options (Note 6)	—	2,191,780	—	—	2,191,780
Shareholder distribution —Silicon Beach Software	—	—	(1,692,000)	—	(1,692,000)
Currency translation adjustment, net of deferred taxes of $497,000	—	—	—	(965,562)	(965,562)
Net income	—	—	17,077,006	—	17,077,006
Balance, December 31, 1989	13,560,869	41,138,274	41,114,833	(1,183,836)	81,069,271
Exercise of stock options (Note 6)	562,637	4,098,954	—	—	4,098,954
Income tax benefit related to stock options (Note 6)	—	3,538,359	—	—	3,538,359
Shareholder distribution —Silicon Beach Software	—	—	(440,605)	—	(440,605)
Capital contribution —Silicon Beach Software	—	500,000	—	—	500,000
Currency translation adjustment, net of deferred taxes of $1,083,000	—	—	—	2,311,847	2,311,847
Elimination of deferred tax liability (Note 9)	—	—	951,214	—	951,214
Net income	—	—	23,760,691	—	23,760,691
Balance, December 31, 1990	14,123,506	$ 49,275,587	$ 65,386,133	$ 1,128,011	$ 115,789,731

See accompanying notes.

Consolidated Statements of Cash Flows
ALDUS CORPORATION

	1990	1989	1988
Cash flows from operating activities:			
Net income	$ 23,760,691	$ 17,077,006	$ 14,773,173
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	7,706,294	6,610,601	6,685,826
Provision for deferred income taxes	(1,276,000)	(317,000)	(2,028,000)
Increase in trade receivables	(5,936,397)	(1,263,643)	(6,106,961)
Decrease (increase) in inventories	(784,320)	3,730,274	(5,735,972)
Decrease (increase) in prepaid expenses	97,681	1,424,725	(2,424,890)
Increase in accounts payable and accrued liabilities	2,153,939	1,296,999	3,952,265
Increase in deferred technical support revenue	862,034	176,746	206,153
Increase in current and deferred income taxes payable	605,081	3,623,523	1,142,850
Acquisition expenses paid by Silicon Beach Software shareholder	500,000	—	—
Other	—	—	(44,543)
Net cash provided by operating activities	27,689,003	32,359,231	10,419,901
Cash flows from investing activities:			
Sales (purchases) of marketable securities and other investments, net	1,254,159	(9,297,619)	12,864,013
Equipment and leasehold improvements purchased	(9,157,494)	(3,944,310)	(4,093,428)
Note receivable and investment in affiliate	175,000	—	(1,750,000)
Purchases of software technology	(2,475,000)	(1,715,225)	(302,000)
Capitalized software development costs	(7,422,236)	(4,779,699)	(4,415,317)
Other	59,754	33,932	184,034
Net cash provided (used) by investing activities	(17,565,817)	(19,702,921)	2,487,302
Cash flows from financing activities:			
Increase (decrease) in lines of credit	—	(252,548)	236,265
Principal payments under lease obligations	(165,899)	(120,517)	(150,890)
Long-term debt	—	(236,279)	(1,361,178)
Proceeds from stock options exercised	4,098,954	850,177	516,524
Tax benefit from stock options exercised	3,538,359	2,191,780	4,175,471
Silicon Beach Software shareholder contributions	—	300,000	—
Silicon Beach Software shareholder distribution	(440,605)	(1,692,000)	(64,500)
Net cash provided by financing activities	7,030,809	1,040,613	3,351,692
Effect of foreign currency exchange rates on cash and cash equivalents:	726,968	(188,255)	(197,229)
Increase in cash and cash equivalents	17,880,963	13,508,668	16,061,666
Cash and cash equivalents at beginning of year	44,505,595	30,996,927	14,935,261
Cash and cash equivalents at end of year:	$ 62,386,558	$ 44,505,595	$ 30,996,927
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$ 89,021	$ 138,256	$ 252,344
Income taxes	$ 8,714,000	$ 2,457,850	$ 3,672,533

See accompanying notes.

Notes to Consolidated Financial Statements

ALDUS CORPORATION

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

BUSINESS

Aldus Corporation ("Aldus") operates in a single industry segment developing, manufacturing, and marketing microcomputer software through its United States operations and European subsidiaries. Aldus sells its products to software distributors, resellers, and original equipment manufacturers primarily in North America, Europe, and the Pacific Rim.

In February 1990, Aldus acquired Silicon Beach Software Inc. ("Silicon Beach Software"), a microcomputer software publisher, through a pooling of interests. Accordingly, Aldus' financial statements have been restated to include the accounts and results of operations of Silicon Beach Software for all periods presented.

During 1990, sales to an unaffiliated customer accounted for 15.8 percent of consolidated net sales. In 1989, sales to an unaffiliated customer represented 17.2 percent of consolidated net sales. In 1988, sales to two unaffiliated customers represented 15.6 and 13.7 percent of consolidated net sales.

PRINCIPLES OF CONSOLIDATION

The accompanying financial statements consolidate the accounts of Aldus and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

FOREIGN CURRENCY

The balance sheets of Aldus' foreign subsidiaries are translated to U.S. dollars at year-end exchange rates. Income and expense accounts are translated at the average rates of exchange prevailing during the year. The adjustment resulting from translating the financial statements of foreign subsidiaries is reflected as an addition or reduction to shareholders' equity. Exchange adjustments resulting from foreign currency transactions and realized and unrealized gains and losses on forward contracts used to hedge currency fluctuations are included in other income.

In 1990, 1989, and 1988, Aldus recognized a net foreign currency exchange gain (loss) of $55,000, $844,000, and ($284,000), respectively, related to accounts receivable denominated in foreign currencies. These amounts are included in other income (expense) in the accompanying consolidated statements of income.

REVENUE RECOGNITION

Aldus recognizes revenue on product sales when the product is shipped. Revenues related to extended technical support contracts are recognized ratably over the term of the support contracts. Aldus performs ongoing credit evaluations of its customers and maintains reserves for potential credit losses. All credit losses have been within management's expectations.

CASH AND CASH EQUIVALENTS

Aldus considers investments in highly liquid debt instruments and money market preferred stocks utilized in Aldus' cash management activities to be cash equivalents.

MARKETABLE SECURITIES

Marketable securities are carried at cost (specific identification basis), which approximates market. Marketable securities consist principally of investment-grade municipal bonds and corporate obligations purchased with maturities of between three months and one year.

INVENTORIES

Inventories are stated at the lower of cost (on a first-in, first-out basis) or market.

DEPRECIATION AND AMORTIZATION

Depreciation of equipment is provided on the straight-line method over estimated useful lives ranging from three to five years. Amortization of leasehold improvements is provided on the straight-line method over the lesser of the related lease term or the estimated useful lives of the improvements.

Notes to Consolidated Financial Statements
ALDUS CORPORATION

SOFTWARE DEVELOPMENT COSTS

Software development costs related to internally developed products are capitalized and amortized on a product-by-product basis using the straight-line method over the estimated sales life of the product, generally 12 to 24 months. Purchased software technology incorporated into Aldus products is amortized using the straight-line method over periods not exceeding 36 months. Fully amortized software development costs are removed from the financial records. Research and development costs related to software development are expensed as incurred.

ROYALTY COSTS

Royalties paid for purchased software are included in cost of sales. Royalty expense included in cost of sales in the consolidated statements of income for the years ended December 31, 1990, 1989, and 1988 was $4,142,000, $3,569,000, and $2,021,000, respectively.

INCOME TAXES

Income tax expense includes United States and foreign income taxes, including United States taxes on unremitted earnings of foreign subsidiaries. Certain income and expense items included in the consolidated financial statements are reported in different years for tax reporting purposes in accordance with applicable income tax laws. The resulting difference between the consolidated financial statement provision for income taxes and income taxes currently payable is reported in the consolidated financial statements as deferred income taxes. Tax credits are accounted for as a reduction of tax expense in the year in which the credits reduce taxes payable.

The Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes," which was issued in 1987, requires an asset-and-liability approach for financial accounting and reporting for income taxes, and replaces the income statement approach inherent in current income tax accounting standards. The Financial Accounting Standards Board deferred the implementation date of the statement until years beginning after December 15, 1991. Aldus presently intends to adopt the standard in 1992. The effect of adopting the standard on Aldus' financial position and results of operations is not expected to be material.

PER-SHARE INFORMATION

Net income per share is computed using the weighted average number of common and common-equivalent shares outstanding, including shares issuable upon exercise of stock options. The computation, using the treasury stock method, assumes that the proceeds from the exercise of stock options are used to repurchase common shares at the average market price of Aldus' common stock during each period. Shares of Aldus common stock exchanged in the acquisition of Silicon Beach Software (Note 9) are considered outstanding for all periods presented.

RECLASSIFICATIONS

Technical support expense of $2,003,000 and $1,794,000 for 1989 and 1988 has been reclassified from cost of sales to sales and marketing expense in accordance with current industry practice. Other amounts, none of which materially affect income from operations or working capital, have been reclassified to conform to the 1990 presentation.

Notes to Consolidated Financial Statements
ALDUS CORPORATION

NOTE 2. INVENTORIES

Inventories as of December 31:	1990	1989
Components and work in process	$ 1,464,116	$ 923,156
Finished goods	3,949,106	1,708,308
	$ 5,413,222	$ 2,631,464

NOTE 3. CAPITALIZED SOFTWARE DEVELOPMENT COSTS

Capitalized software development costs as of December 31:	1990	1989
Software development costs	$ 19,403,901	$ 10,287,699
Accumulated amortization	(6,602,551)	(3,728,815)
	$ 12,801,350	$ 6,558,884

NOTE 4. TRANSACTIONS WITH AFFILIATES

In October 1988, Aldus purchased a 10 percent equity interest in McQueen Holdings Limited ("McQueen") for $875,000 and advanced McQueen an additional $875,000 in the form of an interest-bearing convertible note. Aldus' investment in McQueen is accounted for at cost. In February 1990, McQueen elected to repay $175,000 of the convertible note. As of December 31, 1990, the note, at Aldus' option, may be converted to 8 percent additional equity proratably over the next four years; if not converted, McQueen may repay $175,000 of the principal annually. Any amount not converted or repaid becomes due October 31, 1993. Aldus has contracted with McQueen for various supplies, printing, assembly, management, and fulfillment services. Purchases from McQueen amounted to $6,824,000, $4,234,000, and $2,776,000 for the years ended December 31, 1990, 1989, and 1988, respectively.

In 1989, Aldus entered into an agreement with a Japanese company, Something Good Inc. ("Something Good"), for the development and exclusive distribution of Japanese versions of certain Aldus products. Aldus has rights, which expire in 1991, to purchase a portion of the development and distribution operations being established by Something Good.

NOTE 5. LINES OF CREDIT

Aldus has two unsecured bank lines of credit, a working capital line and a foreign exchange line. The $2,500,000 working capital line of credit expires April 30, 1991, and generally bears interest at the bank's prime rate (10 percent at December 31, 1990). The $4,000,000 foreign exchange line is available for hedging foreign currencies for up to one year. As of December 31, 1990, no amounts were outstanding on these lines.

Notes to Consolidated Financial Statements

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Aldus has various stock option plans for directors, officers, and key employees that provide for nonqualified and incentive stock options. The options are generally granted at fair market value on the grant date and have a term of 10 years. For options granted prior to May 3, 1988, the options vest at 25 percent after the first year and ratably each month for the next three years. Options granted subsequent to May 3, 1988, vest at 20 percent after the first year and ratably each month for the next four years. As required by generally accepted accounting principles, the tax benefit realized from stock options exercised is reported as an addition to shareholders' equity.

At December 31, 1990, options for 717,448 shares were exercisable and 328,145 shares were available for future grants under the plans. Option activity for the three years ended December 31, 1990, was as follows:

	NUMBER	PRICE PER SHARE	AGGREGATE
Balance outstanding, December 31, 1987	2,482,844	$ .02 — $21.75	$ 7,115,731
Granted	645,500	$13.50 — $19.25	10,721,227
Cancelled	(183,440)	$ .06 — $18.00	(2,409,389)
Exercised	(765,156)	$ .02 — $15.75	(516,524)
Balance outstanding, December 31, 1988	2,179,748	$ .02 — $21.75	14,911,045
Granted	412,500	$12.25 — $20.38	6,360,313
Cancelled	(78,308)	$ .06 — $20.00	(883,756)
Exercised	(707,719)	$ .02 — $20.00	(850,177)
Balance outstanding, December 31, 1989	1,806,221	$ .02 — $21.75	19,537,425
Granted	1,442,000	$15.50 — $25.75	27,603,863
Cancelled	(107,813)	$ .06 — $23.75	(1,906,360)
Exercised	(562,637)	$ .02 — $20.00	(4,098,954)
Balance outstanding, December 31, 1990	2,577,771	$ .02 — $25.75	$ 41,135,974

Notes to Consolidated Financial Statements
ALDUS CORPORATION

The components of the provision for income taxes are as follows:

	1990	1989	1988
Current:			
Federal	$ 9,882,000	$ 6,339,000	$ 7,680,000
State	780,000	581,000	553,000
Foreign	2,118,000	1,821,000	639,000
Total current	12,780,000	8,741,000	8,872,000
Deferred:			
Federal	(1,310,000)	(237,000)	(1,786,000)
State	(53,000)	—	(105,000)
Foreign	87,000	(80,000)	(137,000)
Total deferred	(1,276,000)	(317,000)	(2,028,000)
	$ 11,504,000	$ 8,424,000	$ 6,844,000

The components of the deferred income tax benefit are as follows:

	1990	1989	1988
Capitalized expenses currently deductible	$ 1,665,000	$ 921,000	$ 260,000
Tax depreciation different from financial accounting depreciation	(83,000)	(168,000)	(23,000)
Intercompany profit	(2,166,000)	(505,000)	(1,725,000)
Reserves and expenses not currently deductible	(692,000)	(565,000)	(540,000)
	$ (1,276,000)	$ (317,000)	$ (2,028,000)

Aldus' effective income tax provision differs from the statutory federal income tax provision due to the following:

	1990	1989	1988
Statutory federal income tax provision	$ 11,990,000	$ 8,671,000	$ 7,349,000
Foreign sales corporation benefit	(892,000)	(500,000)	(621,000)
State taxes, net of federal benefit	480,000	718,000	302,000
Tax-exempt interest and dividends	(928,000)	(653,000)	(227,000)
Other, net	854,000	188,000	41,000
Provision for income taxes	$ 11,504,000	$ 8,424,000	$ 6,844,000

Notes to Consolidated Financial Statements

ALDUS CORPORATION

NOTE 8. LEASES

Aldus has operating leases for its corporate office, foreign subsidiary offices, domestic field sales offices, certain data-processing equipment, telephone equipment, and other office equipment. Rent expense for operating leases for the years ended December 31, 1990, 1989, and 1988 was $3,479,000, $3,081,000, and $1,834,000, respectively. Minimum rental commitments for equipment and facilities under noncancelable operating leases are as follows:

YEAR	AMOUNT
1991	$ 4,396,000
1992	$ 3,816,000
1993	$ 3,309,000
1994	$ 1,948,000
1995	$ 916,000
Thereafter	$16,502,000

NOTE 9. SILICON BEACH SOFTWARE ACQUISITION

Effective February 23, 1990, Aldus exchanged 1,212,230 shares of its common stock for all of the outstanding common stock of Silicon Beach Software. The acquisition of Silicon Beach Software has been accounted for as a pooling of interests. For 1989 and 1988, Silicon Beach Software elected treatment as a Subchapter "S" corporation for income tax purposes; the combined financial results of Aldus and Silicon Beach Software have been adjusted to reflect a provision for income taxes as though Silicon Beach Software were a "C" corporation for income tax purposes during those years. Deferred taxes of $951,000, resulting from the adjustment to provide for income taxes as though Silicon Beach Software were a "C" corporation in 1989 and 1988, were eliminated and reflected as an addition to shareholders' equity in 1990 upon completion of the merger.

Separate results of operations for the periods prior to the combination were as follows:

	1990 January 1–February 23	1989	1988
Net sales			
Aldus	$ 15,766,000	$ 87,853,000	$ 79,054,000
Silicon Beach Software	913,000	10,763,000	5,073,000
	$ 16,679,000	$ 98,616,000	$ 84,127,000
Net income			
Aldus	$ 3,380,000	$ 15,493,000	$ 14,608,000
Silicon Beach Software	112,000	2,667,000	280,000
Adjustments	—	(1,083,000)	(115,000)
	$ 3,492,000	$ 17,077,000	$ 14,773,000
Net income per share			
Previously reported	$ .26	$ 1.21	$ 1.15
Restated	$ .25	$ 1.22	$ 1.06

Notes to Consolidated Financial Statements

ALDUS CORPORATION

NOTE 10. GEOGRAPHIC AND OTHER INFORMATION

Aldus' net sales and income before income taxes for the years ended December 31, 1990, 1989, and 1988, and the identifiable assets at each respective year-end, are presented below (in thousands):

	UNITED STATES	EUROPE	ELIMINATIONS	CONSOLIDATED
1990				
Sales to unaffiliated customers	$ 80,625	$ 54,358	$ —	$ 134,983
Transfers between geographic areas	17,600	—	(17,600)	—
Total revenues	$ 98,225	$ 54,358	$ (17,600)	$ 134,983
Income before income taxes	$ 30,502	$ 6,729	$ (1,966)	$ 35,265
Identifiable assets	$ 126,920	$ 41,744	$ (27,483)	$ 141,181
1989				
Sales to unaffiliated customers	$ 61,081	$ 37,535	$ —	$ 98,616
Transfers between geographic areas	12,780	—	(12,780)	—
Total revenues	$ 73,861	$ 37,535	$ (12,780)	$ 98,616
Income before income taxes	$ 21,726	$ 4,778	$ (1,003)	$ 25,501
Identifiable assets	$ 90,165	$ 27,225	$ (18,118)	$ 99,272
1988				
Sales to unaffiliated customers	$ 56,871	$ 27,256	$ —	$ 84,127
Transfers between geographic areas	17,125	—	(17,125)	—
Total revenues	$ 73,996	$ 27,256	$ (17,125)	$ 84,127
Income before income taxes	$ 25,374	$ 1,197	$ (4,954)	$ 21,617
Identifiable assets	$ 70,683	$ 21,543	$ (15,880)	$ 76,346

Reports of Management and Independent Auditors
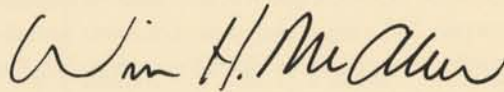
ALDUS CORPORATION

Management of Aldus is responsible for the preparation of the consolidated financial statements and related information contained in this annual report. The financial statements include certain estimates and judgments which management considers reasonable based on currently available information and existing conditions. Management believes the consolidated financial statements fairly reflect Aldus' financial position and results of operations in accordance with generally accepted accounting principles.

Aldus has a system of accounting and internal controls designed to provide reasonable assurance that assets are protected from improper use and that the accounting records provide a reliable basis for the preparation of financial statements. The system is periodically reviewed and modified to address changing conditions and recommendations made by the independent auditors. Management believes that the internal control system provides reasonable assurance that the resulting financial information is reliable.

The Board of Directors, through the activities of its Audit Committee, which consists of outside directors, participates in the process of reporting financial information. The Committee meets periodically with financial management and the independent auditors to review matters relating to accounting, internal control, auditing, and financial reporting. The independent auditors have met with members of the Audit Committee to discuss the results of their audit, and have been given an opportunity in the absence of management to, among other things, present their opinions with respect to the adequacy of the Company's internal controls and the quality of its financial reporting.

Paul Brainerd
President

William H. McAleer
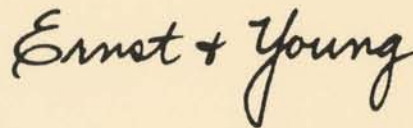Vice President, Finance

February 8, 1991

To the Board of Directors and Shareholders
Aldus Corporation

We have audited the consolidated balance sheets of Aldus Corporation as of December 31, 1990 and 1989, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1990. These financial statements are the responsibility of Aldus' management. Our responsibility is to express an opinion on these 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 from 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Aldus Corporation at December 31, 1990 and 1989, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1990, in conformity with generally accepted accounting principles.

Ernst & Young

Seattle, Washington
February 8, 1991

Supplemental Financial Information
ALDUS CORPORATION

QUARTERLY CONSOLIDATED RESULTS OF OPERATIONS (UNAUDITED)

(in thousands, except per-share data)

1990

	MARCH 30	JUNE 29	SEPTEMBER 28	DECEMBER 31
Net sales	$ 25,466	$ 33,267	$ 36,669	$ 39,581
Income from operations	4,659	7,149	8,738	9,692
Income before provision for income taxes	5,569	8,645	9,916	11,134
Net income	3,787	5,814	6,644	7,516
Net income per share	$ .27	$ .40	$ .45	$ .51
Common stock prices*				
High	$ 22.25	$ 28.25	$ 30.00	$ 31.50
Low	$ 15.00	$ 16.75	$ 20.25	$ 21.00

1989

	MARCH 31	JUNE 30	SEPTEMBER 29	DECEMBER 31
Net sales	$ 26,478	$ 24,325	$ 21,750	$ 26,063
Income from operations	6,522	5,069	3,620	5,912
Income before provision for income taxes	7,022	6,104	4,734	7,641
Net income	4,704	4,049	3,229	5,095
Net income per share	$ .33	$ .29	$ .23	$ .36
Common stock prices*				
High	$ 25.40	$ 20.25	$ 17.00	$ 17.00
Low	$ 14.75	$ 15.25	$ 12.25	$ 12.75

Aldus has never paid dividends on its common stock and has historically retained earnings for use in its business.
*Aldus common stock is traded on the NASDAQ National Market System under the symbol ALDC.

CORPORATE DIRECTORY

OFFICERS

Paul Brainerd
President, Chief Executive Officer

Phil Herres
Chief Operating Officer

Stephen Cullen
Vice President;
General Manager,
Silicon Beach Software Inc.

Derek Gray
Managing Director,
Aldus Europe Ltd.

Aaron Howard
Vice President,
Aldus North America

Dick Mathews
Vice President, Engineering

Bill McAleer
Vice President, Finance; Secretary

Sandy Smith
Vice President, Operations

Larry Spelhaug
Vice President, Marketing

Dave Eckert
Treasurer

BOARD OF DIRECTORS

Paul Brainerd
President, Chief Executive Officer
Aldus Corporation

Gene P. Carter
Investor

Douglas G. DeVivo
General Partner
Vanguard Associates II

Andrew V. Smith

LEGAL COUNSEL

Perkins Coie
Seattle, Washington

INDEPENDENT AUDITORS

Ernst & Young
Seattle, Washington

TRANSFER AGENT

Bank of America
San Francisco, California

ANNUAL MEETING

The annual meeting will be held on Tuesday, May 7, 1991, at 10 a.m., at The Westin Hotel, Seattle, Washington. All Aldus shareholders are encouraged to attend.

ANNUAL REPORT AND 10-K REPORT

Publications of interest to current and potential Aldus investors are available without charge upon request. These include annual and quarterly reports, and the 10-K form filed with the Securities and Exchange Commission.

Such requests should be made to:
Aldus Corporation
Investor Relations
411 First Avenue South
Seattle, WA 98104-2871
Tel. (206) 622-5500

EXECUTIVE TEAM

STEPHEN CULLEN
VICE PRESIDENT;
GENERAL MANAGER
SILICON BEACH SOFTWARE

PAUL BRAINERD
PRESIDENT,
CHIEF EXECUTIVE
OFFICER

BILL MCALEER
VICE PRESIDENT
FINANCE

AARON HOWARD
VICE PRESIDENT
ALDUS NORTH
AMERICA

SANDY SMITH
VICE PRESIDENT
OPERATIONS

PHIL HERRES
CHIEF OPERATING OFFICER

DICK MATHEWS
VICE PRESIDENT
ENGINEERING

LARRY SPELHAUG
VICE PRESIDENT
MARKETING

CURT BLAKE
GENERAL COUNSEL

JOHN O'HALLORAN
DIRECTOR
ALDUS PACIFIC RIM

DEREK GRAY
MANAGING DIRECTOR
ALDUS EUROPE

SEATTLE, WASHINGTON
CORPORATE HEADQUARTERS—ENGINEERING AND THIRD-PARTY DEVELOPMENT; FINANCE; LEGAL; MARKETING, DOCUMENTATION, AND *ALDUS MAGAZINE*; MANUFACTURING AND OPERATIONS

ALDUS NORTH AMERICA—SALES, SERVICE, AND RESELLER MARKETING

ALDUS PACIFIC RIM—SALES, SERVICE, AND MARKETING; MANAGEMENT OF SOFTWARE LOCALIZATION

SAN DIEGO, CALIFORNIA
PRODUCT DEVELOPMENT, MARKETING, CUSTOMER SERVICE

DALLAS, TEXAS
ENGINEERING AND THIRD-PARTY PRODUCT DEVELOPMENT

EDINBURGH, SCOTLAND
ALDUS EUROPE LTD. (EUROPEAN HEADQUARTERS)—PAN-EUROPEAN MARKETING SUPPORT; SOFTWARE LOCALIZATION FOR EUROPEAN LANGUAGES; EASTERN EUROPE BUSINESS DEVELOPMENT

ALDUS U.K. LTD.—SALES, SERVICE, AND CUSTOMER TRAINING CENTER FOR THE U.K., BELGIUM, LUXEMBOURG, THE NETHERLANDS

LONDON, ENGLAND
ALDUS U.K. LTD. REGIONAL OFFICE—SALES, MARKETING, AND CUSTOMER TRAINING

PARIS, FRANCE
ALDUS FRANCE SARL—SALES, SERVICE, AND CUSTOMER TRAINING CENTER FOR FRANCE, ITALY, SPAIN, PORTUGAL

HAMBURG, GERMANY
ALDUS SOFTWARE GMBH—SALES, SERVICE, AND CUSTOMER TRAINING CENTER FOR GERMANY, AUSTRIA, SWITZERLAND

STOCKHOLM, SWEDEN
ALDUS SVERIGE AB—LOCALIZATION INTO NORDIC LANGUAGES; SALES, SERVICE, AND CUSTOMER TRAINING CENTER FOR SWEDEN, NORWAY, DENMARK, ICELAND, FINLAND

WORLDWIDE
SALES AND SERVICE THROUGH MORE THAN 16,000 DEALERS AND DISTRIBUTORS, AS WELL AS IMAGESETTER SERVICE BUREAUS, COLOR PREPRESS HOUSES, AND SLIDE-SERVICE BUREAUS—IN MORE THAN 50 COUNTRIES IN THE AMERICAS, EUROPE, THE MIDDLE EAST, ASIA, AND AUSTRALASIA

AND THE
PROMISE
REMAINS