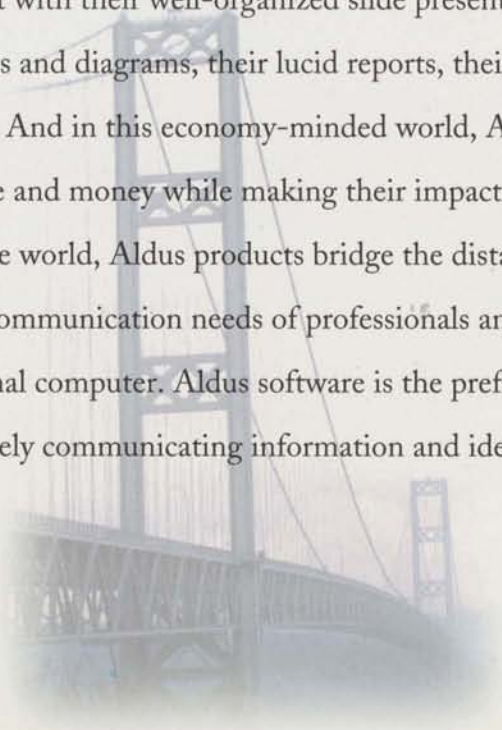ALDUS

MISSION STATEMENT

■

Aldus Corporation develops computer software solutions that help people throughout the world effectively communicate information and ideas.

ONLY SIX YEARS AGO, ALDUS PAGEMAKER, AN unknown software product from a one-room company in Seattle, launched the revolution we now call desktop publishing. For personal computer owners, PageMaker filled a need and fired the imagination. It offered them direct control over their printed communications, giving clear and persuasive form to the content of their messages.

Today, with nine products and nearly a million customers, Aldus Corporation continues to develop elegant, effective software solutions that help people convey information in visually convincing ways. Amid the noise and clutter of their competitors, Aldus customers stand out with their well-organized slide presentations, their polished charts and diagrams, their lucid reports, their lively company materials. And in this economy-minded world, Aldus customers save time and money while making their impact felt.

Around the world, Aldus products bridge the distance between the daily communication needs of professionals and the power of the personal computer. Aldus software is the preferred solution for effectively communicating information and ideas.

MILESTONES

QUARTER *1*

Aldus PageMaker 4.0 for Windows 3.0 is released.

Aldus FreeHand 3.0 for the Macintosh is released.

The Japanese version of Aldus PageMaker for Windows 3.0 is released.

QUARTER *2*

Aldus PageMaker 4.01 for the Macintosh is released.

Aldus International Developers Conference is held in Seattle.

Aldus Persuasion 2.0 for Windows 3.0 is released.

Aldus acquires the publishing rights to PhotoStyler, an image-processing program for Windows, from U-Lead Systems Inc.

Aldus PrePrint 1.5 for the Macintosh is released.

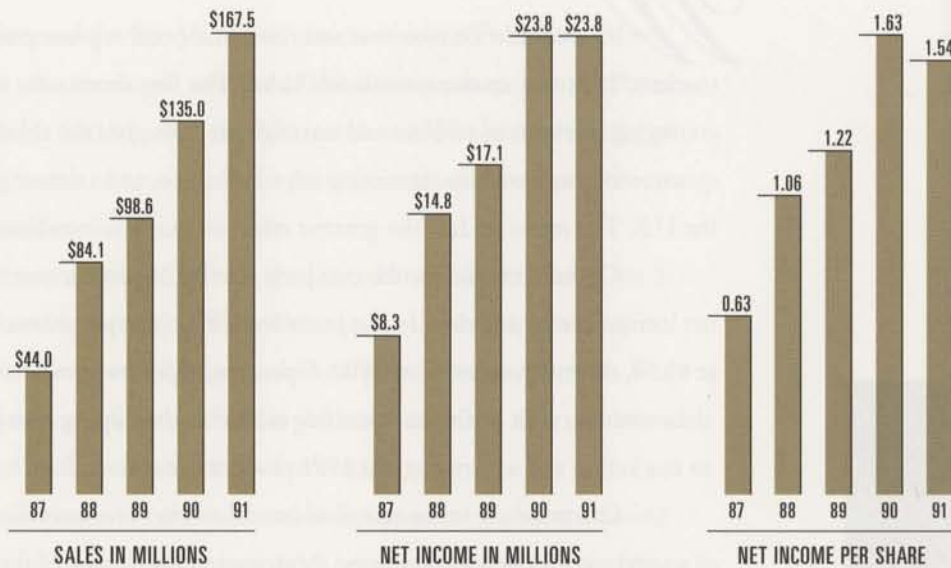The Japanese version of Aldus SuperPaint 2.0 is released.

QUARTER *3*

Aldus acquires the marketing rights to a page-imposition program, now called Aldus PressWise.

Aldus Gallery Effects 1.0, a collection of special effects for photographic images, is released.

CustomerFirst Online bulletin board service is launched at Macworld Expo in Boston.

Aldus introduces its Academic Advantage discount pricing program for education markets.

Aldus Personal Press 1.01 is released.

Aldus launches the Persuasion Trade-Up program to encourage users to replace competitors' products with Persuasion.

Aldus SuperPaint 3.0 is released.

QUARTER *4*

Aldus acquires the publishing rights to PageAhead, a bridge to complex database systems that is released with PageMaker as Aldus PageMaker Database Edition.

Aldus PhotoStyler 1.1 is released.

Aldus International Developers Conference is held in London.

The first version of Aldus FreeHand for the Windows market is released.

Aldus FreeHand 3.1 for the Macintosh is released.

Aldus PageMaker 4.2 for the Macintosh is released.

FINANCIAL HIGHLIGHTS

SALES IN MILLIONS

Year	Value
87	$44.0
88	$84.1
89	$98.6
90	$135.0
91	$167.5

NET INCOME IN MILLIONS

Year	Value
87	$8.3
88	$14.8
89	$17.1
90	$23.8
91	$23.8

NET INCOME PER SHARE

Year	Value
87	0.63
88	1.06
89	1.22
90	1.63
91	1.54

	1991	1990	1989	1988	1987
INCOME STATEMENT *(in thousands)*					
Net sales	$167,530	$134,983	$98,616	$84,127	$44,041
Net income	23,837	23,761	17,077	14,773	8,265
PER SHARE					
Net income	1.54	1.63	1.22	1.06	.63
Weighted average shares outstanding *(in thousands)*	15,489	14,557	14,051	13,978	13,080
BALANCE SHEET *(in thousands)*					
Working capital	127,050	91,832	67,841	52,841	37,683
Total assets	178,569	141,181	99,272	76,346	53,288
Shareholders' equity	155,329	115,790	81,069	63,308	43,975
KEY RATIOS					
Current ratio	7.6	5.3	5.5	5.8	6.4
Return on revenue	14.2%	17.6%	17.3%	17.6%	18.8%
Return on equity	17.6%	24.1%	23.7%	27.5%	34.6%
Revenue per employee *(in thousands)*	189	196	166	174	174

To Our Shareholders

With a worldwide recession and rising competitive pressures in certain markets, 1991 was an uneven year for Aldus. The first six months showed encouraging increases in revenue and earnings per share, but the third and fourth quarters followed with disappointing sales in Europe, and a slower growth rate in the U.S. The recession had the greatest effect on our Macintosh software sales.

Overall, revenue for the company rose by 24 percent over 1990, with net income remaining close to last year's level. Earnings per share ended the year at $1.54, down 6 percent from 1990. Operating expenses grew at a faster rate than revenue, with additional spending related to developing new products and to marketing and advertising our 1991 product releases.

Our response to the recessionary and market pressures has consisted of several complementary strategies. Anticipating the decline of the retail storefront, we began developing partnerships with new leaders in U.S. software distribution, notably mail-order companies and superstores, which offer a wide variety of hardware and software at reduced prices. To help generate market demand for our products, we assigned staff to work with influential resellers in individual markets, and launched several merchandising and promotional campaigns. U.S. programs focused on boosting sales of Aldus Personal Press, Aldus SuperPaint, Aldus Gallery Effects, and our Windows version of Aldus Persuasion.

Next, we looked to our installed base of registered users for new sales opportunities. In the fourth quarter, we prepared a major direct mail campaign, scheduled for January 1992, which offers discounts on new Aldus products to customers who purchase updates to their existing products. The goal is to introduce the full range of Aldus software solutions to our nearly one million loyal customers worldwide.

We enter 1992 with the strongest product line in the company's history. Thirteen products were released last year, including updates to each existing software program. We also fulfilled our promise to expand the number of products running under Microsoft Windows. In the second quarter, we delivered Aldus Persuasion for Windows, followed by Aldus PhotoStyler, the Database Edition

Paul Brainerd,
Founder and President

of Aldus PageMaker, and the first Windows version of Aldus FreeHand. After Microsoft, we now offer the largest number of Windows products of any software company in the world. And together, our Macintosh and Windows products give us many opportunities for competitive multi-product, multi-platform promotions, both here and abroad.

To attract new customers outside the United States, we expanded our international operations by opening another sales office in Canada, a subsidiary in Australia, and a subsidiary in the Netherlands serving the Benelux countries. Strategically, this puts the future of our products in the hands of people who understand customer needs and local market dynamics firsthand.

Finally, as both our international and U.S. organizations face increasing competition, shorter product development cycles become critical to our success. Our goal is to be the first to market with updated versions that directly respond to expressed customer needs. To achieve that goal, engineering resources were used to explore ways to reduce development cycles through innovative programming techniques and the use of new technologies such as object-oriented programming.

If our short-term goal is to aggressively market our expanded product line, our long-term goal is industry leadership. By responding intelligently to customer demands and market trends, we intend to be first or second in market share for each product category we enter. To support this ambitious objective, our engineering efforts will continue to emphasize new product development, technology advances, and programming efficiencies. And as a company, we will focus on improving, developing, and acquiring software solutions that meet communication needs of professionals around the world.

Paul Brainerd
President

ALDUS PRODUCT LINE

ALDUS® DIGITAL DARKROOM™

Aldus Digital Darkroom is an image-processing program for the Macintosh that functions as a computerized darkroom for enhancing, retouching, and composing grayscale and bitmapped images.

ALDUS FREEHAND®

Aldus FreeHand is a design and illustration tool for graphics professionals working on either the Macintosh or PC. It combines an elegant, easy-to-use interface with exceptional power—giving users complete flexibility in the way they work.

ALDUS® GALLERY EFFECTS™

Aldus Gallery Effects allows graphic designers working on a Macintosh to transform color and grayscale bitmapped images into sophisticated art. Each edition offers a range of special effects designed to extend the capabilities of existing graphics software.

ALDUS® PAGEMAKER®

The world leader in desktop publishing software, Aldus PageMaker integrates text and graphics, allowing users to write, design, and produce professional-quality printed communications. It is available in Macintosh, Windows, and OS/2 versions.

ALDUS® PERSONAL PRESS™

Aldus Personal Press for the Macintosh is an entry-level page layout program for new desktop publishers. It offers pre-designed templates and many automated features for quick assembly of printed materials.

ALDUS® PERSUASION®

Aldus Persuasion is a complete desktop presentations program for producing professional-quality visuals, including 35mm slides, black-and-white overheads, speaker notes, and audience handouts. It is available in Macintosh and Windows versions.
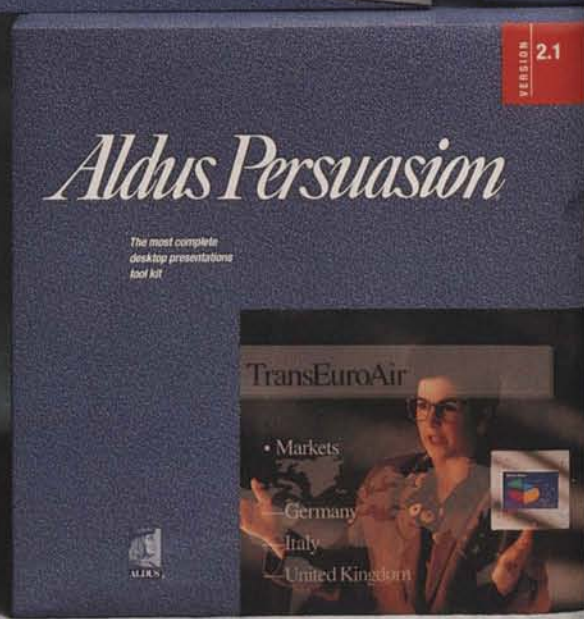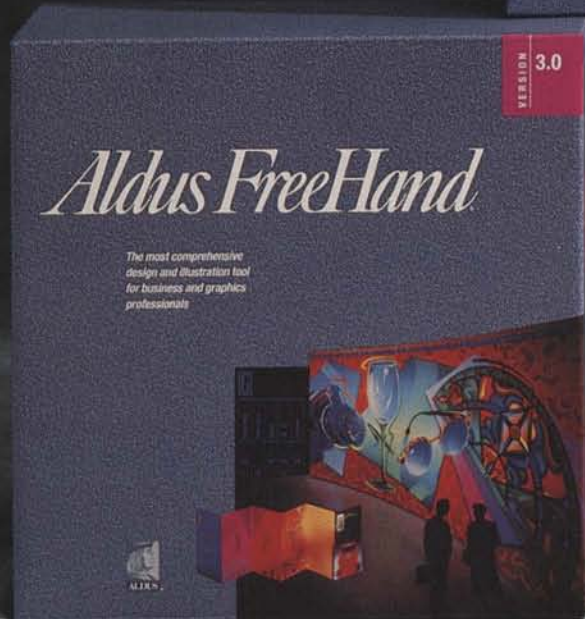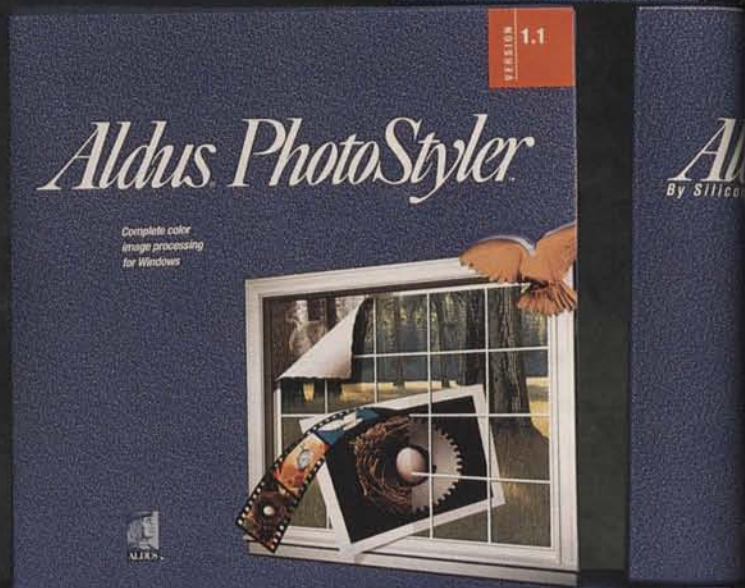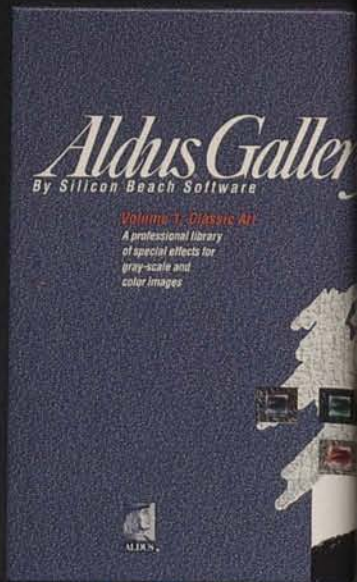
ALDUS® PHOTOSTYLER™

Aldus PhotoStyler is the first professional color image-processing application running under Microsoft Windows. It gives users the ability to enhance or modify photographic images for use in pubications and presentations.

ALDUS® PREPRINT®

Aldus PrePrint allows users to generate four-color separations of entire publications—including the text, illustrations, and photographs—right from the desktop. PrePrint is designed specifically to work with Aldus PageMaker for the Macintosh.

ALDUS® SUPERPAINT®

Aldus SuperPaint combines paint and draw capabilities in one Macintosh program. The Paint layer provides creative flexibility while the Draw layer yields precise graphic control—giving both novices and professionals a complete graphics environment for general business and design projects.

Aldus Digital Darkroom — VERSION 2.0
By Silicon Beach Software
The most complete gray-scale image processing software on the Macintosh.

SuperPaint — VERSION 3.0
Software

Aldus PrePrint — VERSION 1.5
The desktop production tool for full-color separations

Aldus PageMaker — VERSION 4.2
The most complete writing, design, and production tool for desktop publishing

Aldus Personal Press — VERSION 1.0
By Silicon Beach Software
Desktop publishing software that's easy to learn and easy to use

ffects — VERSION 1.0

ACCOLADES

ALDUS PAGEMAKER

Product of the Year, Page Layout (PC) — *Personal Publishing*

Macworld Class, Best Digital Publishing Software — *Macworld (Australia)*

Readers' Choice, Best Page Layout Software (Macintosh and PC) — *Publish*

Best Desktop Publishing Product (Macintosh) — *Apple Business Magazine (London)*

World Class Readers' Choice, Desktop Publishing Software — *PC World*

Highest Rating, Advanced Desktop Publishing Software (PC) — *Software Digest*

World Class, Desktop Publishing Software (Macintosh) — *Macworld*

Product of the Year, Desktop Publishing Software (Macintosh and PC) — *InfoWorld*

Product of the Year, Desktop Publishing Software (Macintosh and PC) — *Byte*

ALDUS FREEHAND

Readers' Choice, Best Draw Software (Macintosh) — *Publish*

Product of the Year, Draw (Macintosh) — *Personal Publishing*

ALDUS PERSUASION

World Class, Desktop Presentations (Macintosh) — *Macworld*

Readers' Choice, Best Presentation Software (Macintosh) — *Publish*

Winner, Presentation Graphics Shootout — *PC Week*

Best Presentation and Multimedia Product (Macintosh) — *Apple Business Magazine (London)*

ALDUS SUPERPAINT

World Class, Black-and-White Paint Software (Macintosh) — *Macworld*

Readers' Choice, Best Paint Software (Macintosh) — *Publish*

ALDUS CUSTOMER SERVICE

World Class, Customer Service — *Macworld*

PRODUCT LINE EXPANSION

Solving customer problems with a diversified product line

E SPENT MUCH OF THE PAST year diversifying the Aldus product line by introducing new solutions to business communication problems. A major goal was to make these solutions available on multiple platforms for the convenience of people who work with both Macintoshes and PCs. Beginning with the February release of PageMaker 4.0 for Windows 3.0, we shipped 13 new products or updated versions of existing products.

PageMaker 4.0 capitalized on the popularity of Microsoft Windows' intuitive operating environment, which gathered momentum worldwide in 1991 with the

DAVID ROBERTS
Director, Business Products

As head of the product marketing and program management functions for Aldus PageMaker and Persuasion, Dave lent his experience to the development of our new Windows version of Aldus Persuasion.

release of Windows 3.0. PageMaker for Windows now outpaces Ventura Publisher in market share. On the Macintosh side, our December release of PageMaker 4.2 included our new Additions technology and contained over 40 features that counter many of the perceived strengths of our primary Macintosh competitor, QuarkXPress.

Our new PageMaker Database Edition filled an expressed customer need— that of producing data-intensive publications, such as catalogs, directories, and price lists, with the speed and ease of desktop publishing. The product incorporates the PageAhead™ software program, whose spreadsheet-like interface, in tandem with PageMaker for Windows, forms a powerful bridge to elaborate database management systems.

To provide entry-level desktop publishing solutions to new computer users, we also shipped Aldus Personal Press 1.01. First released in 1990, Personal Press is for the nonprofessional desktop publisher. The program's appeal lies in its many easy-to-use templates and automated features, which free customers from having to make design decisions.

Just as PageMaker revolutionized publication production for personal computer owners, Aldus Persuasion put slide and overhead production in the hands of the business presenter. Today, we are especially proud of Persuasion 2.0 for Windows, which has met with much critical acclaim since its release in May. The product works the way business professionals do by allowing them to type their ideas into its built-in outliner. From there, Persuasion automatically formats their outline text into finished slides or overheads.

Desktop presentations is expected to be a growth category under Windows. In the few months it has been on the market, Persuasion for Windows has become the presentation product standard at such companies as American Airlines, Chevron, Colgate Palmolive, Martin Marietta, and Motorola. It was also ranked the number one presentation software for the PC by *InfoWorld*, one of the most influential industry magazines.

Aldus FreeHand also showed steady increases in customer acceptance, particularly among technical illustrators, graphic designers, and others whose business success requires sophisticated graphics. Research data for 1990 shows

Grubb & Ellis Worldwide

Japan
Hong Kong
Taiwan
Thailand
Singapore
Australia
New Zealand

Grubb&Ellis

RICHARD PODOS

As the largest full-service real estate firm in North America, Grubb & Ellis gives a lot of presentations. The 250 people working in the New York area do their own presentations, and most do them with Aldus Persuasion for Windows. Richard Podos, a managing director, introduced Persuasion to the company because he felt it was the only way to do sophisticated presentations quickly. Persuasion, he says, delivers all three major components for a presenter: speaker notes, audience handouts, and the presentation itself.

DAVID NIXON

■

David Nixon, an instructional developer for McDonnell Douglas in Long Beach, California, found a way for the Professional Development Department to lower costs and control the production of training and information booklets. Deciding that desktop publishing was part of the solution, he searched for an application that was easy to use for people with little Macintosh experience or layout skills. The workgroup now uses Aldus Personal Press, which Nixon says gives them the tool they need for high quality at very little cost.

■

PRODUCT LINE EXPANSION

that the program has overtaken its major competitor on the Macintosh, Adobe Illustrator, and our March 1991 release of version 3.0 sharpens its competitive edge still further. In the publishing field alone, three major organizations—The Associated Press, Knight-Ridder, and Gannett—have chosen Aldus FreeHand as their standard drawing program.

In the fourth quarter, we shipped our first Windows version of Aldus Free-Hand, giving PC users the same ability as their Macintosh counterparts to produce advertisements, brochures, technical drawings, logos, maps, diagrams, charts, and other illustrations.

This past year also saw major progress in our effort to bring full-color production to the desktop customer. Following the May acquisition of PhotoStyler from U-Lead Systems Inc., we released Aldus PhotoStyler as the first professional-level photo-processing software running under Windows. PhotoStyler offers our customers an easy-to-use alternative to the traditional high-end prepress system as they retouch, edit, and color-correct their scanned photographic images.

To bring Macintosh customers still closer to high-end prepress production on the desktop, we achieved two other strategic goals in 1991: the second-quarter shipment of Aldus PrePrint 1.5, an updated version that incorporated many customer requests, and the July acquisition of Emulation Technologies' page-imposition software. Now called Aldus PressWise, our imposition program lets users of PageMaker and QuarkXPress arrange pages on a printer's signature form so they are positioned correctly for printing, folding, and binding. Scheduled for release in early 1992, PressWise responds directly to the need of service bureaus, commercial printers, and color shops for prepress tools that emulate traditional color and print production tasks.

Other product shipments in 1991 included a new version of the award-winning graphics program Aldus Super-Paint, and Aldus Gallery Effects, a collection of image-processing filters for creating special artistic effects on scanned images.

Together, our products offer people new ways of increasing their efficiency and heightening the impact of their communication materials. As we head into the future, we will continue to emphasize sensible solutions to the everyday needs of professional communicators.

KATHY DAVIDS
Product Marketing Manager

Kathy is in charge of U.S. marketing programs, advertising, and training for Aldus Personal Press, which has attracted a devoted following since the release of version 1.01 in August 1991.

New Technology

Reducing product cycles and costs with innovative technology

*L*AST YEAR, WE REFINED OUR product development strategy to emphasize core technologies that can be applied to multiple products within multiple operating environments. As we continue with advanced technology development, we will shorten product cycles, reduce development costs, and reinforce our status as a leading developer of software solutions for both the Macintosh and Windows platforms.

An important advance in our development of PageMaker was Aldus Additions, a technology that accommodates diverse needs by enabling users to automate many routine tasks they perform in PageMaker. This technology also gives

RICH GARTLAND
Senior Software Engineer

Rich conducted the original research on the architecture that eventually led to Aldus Additions. His early evangelism inspired the company to dedicate a team of engineers to bring the Additions technology to life.

software developers the framework to engineer "plug-in" features for the basic PageMaker program, which expands the market appeal of the product without adding to our development costs. Since the October announcement of Aldus Additions, we have received over 200 requests for Additions toolkits from developers all over the world.

We have also continued our groundbreaking work with object-oriented technology, which gives us a number of advantages over our competitors. Specifically, the technology allows us to produce code that is interchangeable between Macintosh and PC applications for ultimate compatibility among our products. Object technology also opens the door to modular—or component—architecture. Now, throughout our development units, we have the means to build products from independently developed components, rather than from a core of code that can become unwieldy in the ongoing effort to satisfy changing customer needs.

As we integrate object-oriented technology into all our development efforts, the return on our investment increases. Instead of only one product benefiting from each unit of engineering effort, we

can now apply results to multiple products and product upgrades. We can also profit by licensing our technology innovations to other companies.

Building on past accomplishments, we have extended our pioneering work with intuitive user interfaces to user-interaction models, and our research in artificial intelligence is being applied to product development activities in Europe. With Hewlett-Packard and a consortium of other companies, we are exploring a standard interface for image-capture devices, such as scanners and CD-ROM storage devices. And, as an acknowledged leader in color technology, we have spearheaded discussions with computer manufacturers to have color-management systems incorporated into computer operating systems.

The benefit of this technological leadership is a firm foothold in the future of the industry. With our engineering efforts focused in strategic areas, we can offset competitive pressures by reducing product cycles and lowering development costs.

PAULINE McCORMACK

■

Pauline McCormack is the Voice
Navigator Product Manager
for Massachusetts' Articulate
Systems, which means she
also manages development
and marketing for the
company's forthcoming Voice
Addition for PageMaker. By
joining Articulate's voice navi-
gation technology with Aldus'
Additions technology, the
product will enable users to
control PageMaker through
voice commands, a quicker,
more intuitive way of making
the software work for them.

■

COLLEEN CACCHIOTTI

■

Art Director Colleen Cacchiotti
is one of nine designers in
Design Services at The New
England, a life insurance and
investment company in Boston.
The group uses both Aldus
FreeHand and Aldus PageMaker
to produce the company's bro-
chures, promotional materials,
and newsletters. The group also
functions as their own service
bureau. As a full-service
creative group for the
company's headquarters
and U.S. field offices, Design
Services depends on expert
help from Aldus software
support technicians.

■

NEW ENGLAND

CUSTOMER SERVICE

Tailoring support programs to customer needs

*B*Y THE END OF THE YEAR, nearly a million Aldus software owners had registered their products, which suggests that our reputation for after-sales service precedes us. The strength of our reputation is due to constant reassessment of our service offerings, and to the award-winning expertise of our telephone support staff.

Key to this success are the Aldus CustomerFirst℠ fee-based service programs, which allow customers to tailor our product support to their unique requirements. Unusual for industry service programs, CustomerFirst is run as a business unit, where revenues grew by 55 percent in 1991.

In August, we launched Customer-First Online, one of the first services of its kind in the U.S. Online offers customers quick access to technical information, timely answers to their product questions, and a wealth of Aldus information—all via an interactive, 24-hour electronic bulletin board service. For desktop publishers in need of quick art

direction, we introduced Design Line, a pay-as-you-need service that dispenses professional design advice by fax.

The Aldus CustomerFirst Corporate Library was conceived last year as a set of customized services geared to corporate customers in the U.S. and Canada. For a basic fee of $1,500 a year, large companies receive copies of Aldus products and preferential access to our technical support staff, as well as training materials, Aldus publications, enrollment in Aldus Technical Seminars, and other CustomerFirst benefits.

For corporate customers in Europe, our United Kingdom subsidiary launched dedicated training classes, which fill up immediately. Training is provided in Edinburgh and London by highly skilled Aldus staff for no more than six students per class. The program was introduced in response to our corporate customers' ever-increasing demand for direct training from Aldus.

In the U.S., our technical support staff was able to increase its productivity by 15 percent through database improvements and an artificial intelligence-based phone system that answers the most commonly asked customer questions. We also ask

every technician to make a check-in call to one customer a day to personalize the process of doing business with a growing company such as ours.

All our programs are re-evaluated continually, as customer needs evolve. Our future success depends on our understanding of the special problems of small companies and large corporations, graphic designers and business professionals, vertical markets and the lone entrepreneur. As computer technology changes, customer demands change, and so will the programs we design to solve their problems.

ANDREA SHANNON
Software Support
Technician

A member of our award-winning technical support staff, Andrea specializes in solving technical problems for service bureaus that have signed up for the Aldus Imaging Support Services program.

GEOGRAPHIC EXPANSION

Building bridges to the world's software customers

ALDUS' STRATEGY FOR growth has always included the world beyond U.S. shores, and 1991 was no exception. Faced with a recession in much of Europe, we expanded our operations elsewhere to minimize the impact of weakened European economies. We opened offices in Australia and Canada, and strengthened our presence in Japan, where we continue to dominate the desktop publishing market.

Our international organizations of over 275 people are among the most effective in the software industry. Aldus is the sixth largest microcomputer software company in Europe ranked by sales, and our six subsidiaries there, including our new Netherlands-based Benelux office, give us better access to local dealers and distributors. With German sales partially offsetting lower growth in Sweden, France, and the U.K., and several Pacific Rim countries realizing their promise, our revenue from international markets totaled 49 percent of our sales for 1991.

From its inception, Aldus Pacific Rim has shown dramatic growth in revenue each year. In 1991, Pacific Rim sales jumped by 46 percent, with Japan, Canada, Australia, and one of our newest markets, Latin America, contributing to the overall growth rate. With Brazil and Mexico beginning to adopt desktop computer technology, Latin America holds considerable potential as an ongoing sales opportunity for Aldus.

With the help of our partner, Something Good, we are also well-positioned in Japan. The 1991 release of Japanese versions of Aldus FreeHand, PageMaker, Persuasion, and SuperPaint boosted revenue from that market by 100 percent.

To handle the continued demand for non-English versions of our products, Aldus Pacific Rim opened a dedicated localization department in 1991 to translate and modify Aldus programs for other countries. The group now produces the Canadian French, Brazilian Portuguese, Spanish, Japanese, Chinese, and Korean versions of our products. We were the first to enter Japan and China with localized desktop publishing products, and we will soon introduce desktop publishing to South Korea with a Korean PageMaker for Windows.

Increasingly, European and Pacific Rim markets are securing future stability for our company. And although Europe has been affected by the recession, the success of Windows 3.0 there suggests a bright future for our PC products. On top of this, we continue to look for emerging markets, notably in South America and the Far East, that show potential for new and long-term revenue sources.
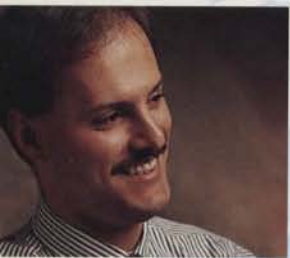
JAVIER VARGAS
*Marketing Manager,
Latin America*

Javier handles the sales and marketing of Aldus products in the Carribean, Central and South America, and the fast-growing market in Mexico, where he works with Alberto Aguilera of Expansión magazine.

ALBERTO AGUILERA

■

With a circulation of 25,000
readers, *Expansión* is the larg-
est business-directed magazine
in Mexico—somewhat on the
same level of importance and
influence as *Fortune* magazine
in the U.S. Production Director
Alberto Aguilera and his staff
of 25 get the magazine out
each week with the help of
Aldus PageMaker for Windows.
The group has used PageMaker
since the first Windows
version was made available
in January 1987.

■

KERRY BURG

∎

As Director of Graphic Design
for the NBBJ Group, the second
largest architectural firm in
the country, Kerry Burg adopted
Aldus FreeHand to handle the
increasing flow of last-minute
projects. Her staff's projects
range from brochures to special
promotions to company propos-
als for new architectural work.
Burg feels that with Aldus
FreeHand, her designers can
explore more creative options in
less time. Winner of 19 awards
in 1990-91, the NBBJ design
group is considered one of the
most innovative in the U.S.

∎

MARKET DEVELOPMENT

Focusing product promotions and programs on key market areas

ALDUS SPENT MUCH OF 1991 laying the groundwork for important new markets and reinforcing commitments to existing ones. We focused on our primary customer bases of graphic arts professionals, publishing professionals, and communications professionals within the corporate market.

To strengthen our bridge to the graphic design community and the vendors who influence them, we launched our Graphic Arts Initiative (GAI) series of worldwide events. With increasing competition in the professional graphic design market, we wanted to reassert our dedication to these customers, and reestablish Aldus products as the truly complete design and production solutions they are.

In Europe, GAI programs included promotional bundles of our graphic arts software (Aldus FreeHand, PageMaker, and PrePrint), promotions to service bureaus, special training programs, direct mail campaigns, graphic arts forums, and a 25-city road show of special events and product demonstrations.

In the United States, we brought 19 of the world's top designers to our Seattle headquarters for three days' consultation on the role of electronic tools in the future of graphic design. We also published the first eight booklets in our *Straight Talk* series, a collection of informative discussions on the finer points of electronic design and Aldus products. In our sales organization, we hired graphic arts specialists to generate additional sales promotions, and our technical support group now includes technicians dedicated to the special needs and challenges of service bureaus.

Our efforts in the business market were highlighted by the June release of the first Windows version of Aldus Persuasion. Since then, several large corporations have made it their official standard for the production of effective slide and overhead presentations. In response to a very different need from the business community, we shipped the database edition of PageMaker 4.0 for Windows. Now, customers can easily select information from complex databases and transform it into an attractive publication. New vertical markets in the business arena include our first big contracts with the United States government and a successful effort to sell special versions of Aldus products to the education market.

As we look toward 1992, we expect our clear market focus and carefully targeted promotions to offset competitive pressures and an evolving pricing climate. Worldwide, our sales forces are initiating aggressive programs to include direct selling opportunities, new merchandising strategies, and alliances with key distribution channels to meet our ambitious revenue goals for the coming year.

DIANNE HOFBECK
Senior Product Manager

As the PageMaker product manager, Dianne developed the idea of the Aldus Straight Talk series, a key component of our Graphic Arts Initiative, which has helped attract graphic designers to Aldus products.

Employee Development

Recruiting, training, and retaining the best and the brightest

ENSITIVITY TO THE NEEDS of our nearly 1,000 employees worldwide is as strong a priority as our commitment to customer solutions. As developers, promoters, and users of our software, a dedicated staff is paramount for our software's success. Last year, to attract new talent and safeguard our investment in a hard-working staff, we made some significant additions to our compensation policies and training programs.

Our new stock option plan stands out among the 1991 developments because it gives a piece of the company—in the form of stock option awards—to every employee worldwide. Stock options vest over a five-year period, thus giving employees a proprietary interest in the company's long-term financial well-being.

Along with option awards, we instituted our Employee Stock Purchase Plan in the U.S., under which staff can buy stock at discounted prices through payroll deduction. And to reward our long-term employees, we began offering six-week paid sabbaticals to those who have been with Aldus for over five years.

Much of our attention last year was taken up with training. Our European headquarters in Edinburgh offered an array of professional skills classes, as well as foreign language classes to help overcome language barriers among our six European subsidiaries. New programs for our U.S. employees included project management training, expanded classes for product training, our Aldus Supervisor's Series of one-day training courses on a range of topics, and financial management courses for non-financial staff.

We continue to send new employees through a two-and-a-half-day class on our Quality Improvement Process, which infuses our daily work with a common performance standard and a context for improving results. Also, as co-sponsor of the National Quality Forum, we brought software developers from 15 large corporations to Seattle to discuss quality standards for software product development.

Just as customer needs change, so do the training and compensation requirements of employees. In 1992, we will be reviewing health plans, salary structures, and other compensation policies to remain competitive with our industry peers.

TERESA JACOBS
European Training Coordinator

Teresa takes care of much of the external and internal training activity in Europe, including employee product training for our subsidiaries.

KRISTIN NELSON
Senior Accountant

Along with her job in the Finance Department, Kristin is a member of our Quality Improvement Team. Last year, she helped coordinate the National Quality Forum for software developers from 15 major companies.
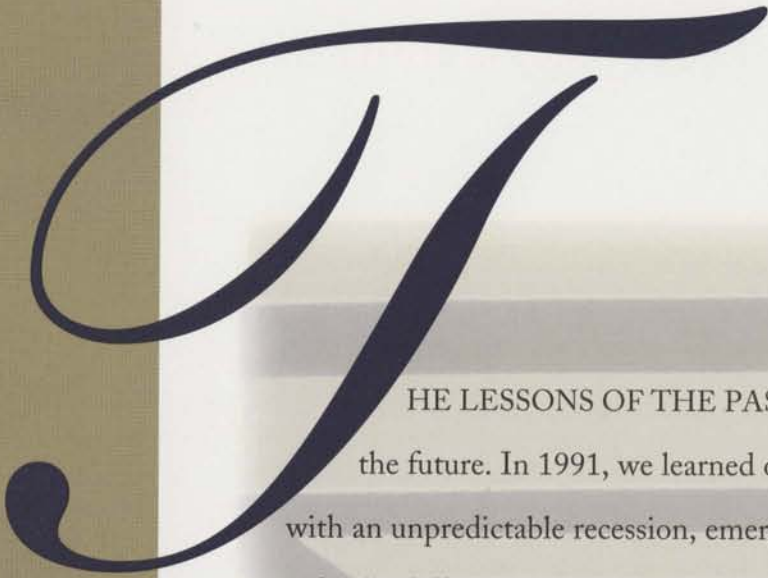
*T*HE LESSONS OF THE PAST ARE INVALUABLE TO the future. In 1991, we learned our lessons well, as we wrestled with an unpredictable recession, emerging competition, and a radically different environment for software distribution.

We head into the future with the strongest product cycle in Aldus history—thirteen new products or updates that directly respond to customer challenges.

Our international presence is among the most visible in the industry—six subsidiaries sensitive to local requirements, a sophisticated network of loyal distributors, and a Pacific Rim organization that has continually surpassed expectations.

Our lifelong commitment to technology innovation should, in 1992, show results in shorter product cycles, lower development costs, and products that solve an explicit customer problem.

Our attention to platform-interchangeable products, along with our support of Windows, will attract existing customers to new products and new customers to our innovative solutions.

The future is in our hands. With an attentive eye on our customer and a firm hold on our freshly focused business, we look forward to a challenging 1992.

PRODUCTION NOTES

THE PROCESS

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This report was designed and produced with Aldus PageMaker, Aldus FreeHand, Aldus PhotoStyler, Aldus PrePrint, and Adobe Photoshop. Transparencies of photographs of individuals were scanned in the TIFF format using a Hell DC 3805 scanner. The photo-illustrations of the bridges began as snapshots from private collections, and were then manipulated in Aldus PhotoStyler. The final page designs, including text and images, were color-separated in Aldus PrePrint and ouput to an Agfa SelectSet 7000 as color film separations.

ANNUAL REPORT TEAM

∎

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Colleen Cullen, Print Production

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Z-fold brochure—NBBJ: Kerry Burg, art direction; Margo Sepanski, design
Publication page—Design Continuum Inc., design; ©1991 Prentice Hall
School Division of Simon & Schuster

F INANCIAL REVIEW

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Sales

1991	Change	1990	Change	1989
$167,530	24%	$134,983	37%	$98,616

(dollar amounts in thousands)

Aldus' 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 exchange rates, increasing competition in the software industry, and entry into new geographic markets.

Net sales grew 24 percent in 1991 through increased unit volume. Aldus' product line continued to expand in 1991 with the addition of Aldus Persuasion 2.0 for Windows, Aldus Gallery Effects 1.0, Aldus PageMaker Database Edition, Aldus PhotoStyler 1.1, Aldus FreeHand 3.0 for Windows, and a Japanese version of PageMaker for Windows. Enhancements to existing products included the release of PageMaker 4.0 for Windows; two releases of PageMaker for the Macintosh, version 4.01 and 4.2; and two releases of Aldus FreeHand for the Macintosh, version 3.0 and 3.1. Other product enhancements included PrePrint 1.5 for the Macintosh, Personal Press 1.1 for the Macintosh, SuperPaint 3.0 for the Macintosh, and SuperCard 1.6 for the Macintosh.

PageMaker 4.0 for Windows contributed significantly to the growth in 1991 sales, through sales of full product as well as upgrades. Sales from the new releases of Aldus FreeHand 3.0 and 3.1 for the Macintosh and Persuasion 3.0 for Windows also helped push sales over 1990 levels. Sales grew more slowly in 1991 compared with 1990 due to recessionary conditions in Aldus' domestic and European markets in the second half of 1991, particularly in the United Kingdom, Sweden, and France. Due to competitive and economic factors, sales of PageMaker 4.0 for the Macintosh also were sluggish in the last half of 1991, prior to the shipment of the upgraded 4.2 version in December. Aldus' management expects recessionary conditions throughout the world to continue to affect sales through the first half of 1992.

In 1990, Aldus' sales growth resulted largely from increased unit volume due to the release of new versions of PageMaker—4.0 for the Macintosh and 3.01 for Windows—along with the growing popularity of Aldus FreeHand and Aldus Persuasion, both for the Macintosh.

International net sales for 1991, 1990, and 1989 were $81.4 million, $65.2 million, and $46.6 million, respectively. International sales for 1991 and 1990 were 49 percent and 48 percent of total net sales. International sales for 1991 grew 24 percent over the previous year as a result of strong sales growth in Aldus' German subsidiary as well as from Aldus' Pacific Rim division. This sales growth was partially offset by weak economies in areas served by Aldus' other European subsidiaries.

Because a portion of Aldus' international sales is denominated in foreign currencies, Aldus' sales are affected by fluctuations in exchange rates. Exchange rates had little impact on consolidated sales for 1991, as rates were relatively unchanged from 1990. With the general weakening of the U.S. dollar in 1990, fluctuations in exchange rates resulted in a 5 percent increase in 1990 sales over 1989 sales.

In the fourth quarter of 1991, Aldus released six products: PageMaker Database Edition, PhotoStyler 1.1, Aldus FreeHand 3.0 for Windows, PageMaker 4.2 for the Macintosh, Aldus FreeHand 3.1 for the Macintosh and SuperCard 1.6. A material portion of Aldus' 1992 revenues are expected from these new releases; however, there is no assurance that these products will receive market acceptance. As a result, Aldus cannot determine the effect these products will have on sales or results of operations.

$167,530
$134,983
$98,616

89 90 91
(in thousands)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Cost of Sales

1991	Percentage of net sales	Change	1990	Percentage of net sales	Change	1989	Percentage of net sales
$32,590	19.5%	23%	$26,433	19.6%	26%	$20,969	21.3%

(dollar amounts in thousands)

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

Cost of sales as a percentage of net sales for 1991 is consistent with cost of sales in 1990. A slight shift in the sales mix in 1991 toward royalty-based products was offset by reduced product costs. Sales of PageMaker, with its low royalty costs, comprised 64 percent of 1991 sales, compared with 69 percent of 1990 sales.

The decrease in cost of sales as a percentage of net sales in 1990 compared with 1989 was the result of price increases on certain products, reduced product costs, and a shift in the sales mix toward higher-margin products.

Sales and Marketing

1991	Percentage of net sales	Change	1990	Percentage of net sales	Change	1989	Percentage of net sales
$57,211	34.1%	30%	$44,061	32.6%	39%	$31,734	32.2%

(dollar amounts in thousands)

Sales and marketing expenses increased in 1991 as a result of increased sales and marketing efforts, particularly advertising related to the shipment of Persuasion 2.0 for Windows, as well as other 1991 product releases. Management expects sales and marketing expenses to increase in early 1992 as new tactics to expand markets and increase penetration in existing markets are implemented and as two new subsidiaries, Aldus Australia and Aldus Benelux, are opened in January 1992.

The 1990 increase in sales and marketing expenses was 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 Windows 3.0, PrePrint 1.0, SuperCard 1.5, Digital Darkroom 2.0, and Personal Press 1.0.

General and Administrative

	1991	Percentage of net sales	Change	1990	Percentage of net sales	Change	1989	Percentage of net sales
	$24,466	14.6%	30%	$18,797	13.9%	46%	$12,893	13.1%

(dollar amounts in thousands)

Increases in general and administrative expenses for 1991 and 1990 reflect additional staffing costs, depreciation, and rental expense as Aldus continued to add personnel, develop information systems, and expand office space to support the growth of worldwide operations. Aldus' management expects general and administrative expenses to increase at a slower rate than sales in 1992, as staffing increases will be restricted in the first half of 1992.

Software Development Costs

Research and development

	1991	Percentage of net sales	Change	1990	Percentage of net sales	Change	1989	Percentage of net sales
	$14,125	8.4%	20%	$11,736	8.7%	35%	$8,666	8.8%

(dollar amounts in thousands)

Amortization of capitalized software development costs

	1991	Percentage of net sales	Change	1990	Percentage of net sales	Change	1989	Percentage of net sales
	$9,288	5.5%	150%	$3,719	2.8%	15%	$3,231	3.3%

(dollar amounts in thousands)

The increase in research and development costs in 1991 reflects continued expansion of Aldus' engineering staff and increased work on non-capitalized software research and development efforts. The management of Aldus believes that continued investment in research and development is critical to Aldus' growth and competitive position.

Amortization of capitalized software development costs increased in 1991, primarily due to the shipment of PageMaker 4.0 for Windows, Persuasion 2.0 for Windows, and Aldus FreeHand 3.0 for the Macintosh. Amortization of capitalized development costs in 1990 increased due to the shipment of Aldus PageMaker 4.0 for the Macintosh. Management does not expect significant increases in amortization of software development costs in 1992.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Interest Income

1991	Percentage of net sales	Change	1990	Percentage of net sales	Change	1989	Percentage of net sales
$5,042	3.0%	—	$5,051	3.7%	36%	$3,710	3.8%

(dollar amounts in thousands)

Though cash, cash equivalents, and marketable securities increased $30 million over 1990, interest income for 1991 remained flat due to declining interest rates and a shift in Aldus' investment portfolio. Aldus' current portfolio includes a higher percentage of tax-advantaged and tax-exempt securities than in prior years. This portfolio shift resulted in lower interest income but a higher after-tax return than would have been earned by investing in taxable securities.

Provision for Income Taxes

1991	Percentage of net sales	Effective tax rate	1990	Percentage of net sales	Effective tax rate	1989	Percentage of net sales	Effective tax rate
$10,844	6.5%	31.3%	$11,504	8.5%	32.6%	$8,424	8.5%	33.0%

(dollar amounts in thousands)

An analysis of differences between the statutory and effective income tax rates is provided in Note 8 to the Consolidated Financial Statements.

The Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes," 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 implementation of the statement until years beginning after December 15, 1992. Aldus intends to adopt the standard in 1993. The effect of adopting the standard on Aldus' financial position and results of operations will not be material.

Silicon Beach Software Acquisition

During 1990, Aldus completed the acquisition of a San Diego-based microcomputer software publisher, Silicon Beach Software Inc. The acquisition broadened Aldus' Macintosh-based product offerings with the addition of SuperPaint, SuperCard, Digital Darkroom, Super 3D, and Personal Press. The acquisition has been accounted for as a pooling of interests. Accordingly, Aldus' 1990 and 1989 financial statements have been restated to include the accounts and results of operations of Silicon Beach Software.

Liquidity and Capital Resources

Aldus' financial condition remained strong as of December 31, 1991. Aldus' investment portfolio of cash, cash equivalents, and marketable securities increased $30 million to $106 million at December 31, 1991. Aldus' investments represent 59 percent of total assets in 1991 and consist of investment-grade securities diversified among security types, industries, and issuers. Aldus' working capital at December 31, 1991, was $127 million and its current ratio was 7.6 to 1, up from 5.3 to 1 in 1990.

Historically, working capital needed to finance Aldus' growth has been provided by cash flow from operations and the sale of common stock. The growth in additions to equipment and leasehold improvements is expected to continue as Aldus expands its worldwide operations. In addition, Aldus will continue to explore options for new U.S. facilities.

In January 1992, Aldus announced its intent to repurchase up to one million shares of Aldus common stock from time to time on the open market depending on market conditions, share price, and other factors. The repurchased shares are expected to provide shares for Aldus' stock option and stock purchase plans.

Aldus has three unsecured lines of credit, a working capital line, and two foreign exchange lines. The $3 million working capital line, which expires May 1, 1992, generally bears interest at the bank's prime rate. The $5 million and $4 million foreign exchange lines are used to hedge foreign-denominated receivables for up to one year. As of December 31, 1991, no amounts were outstanding on these lines. Aldus has no long-term debt.

Management believes existing cash, cash equivalents, and marketable securities, together with cash generated from operations and the exercise of stock options, will provide sufficient funds for acquisitions, expansion, and operating requirements in the foreseeable future.

CONSOLIDATED BALANCE SHEETS

December 31,	1991	1990
Assets		
Current assets:		
Cash and cash equivalents	$ 60,996,967	$ 62,386,558
Marketable securities	45,218,492	13,781,073
Trade accounts receivable, net of allowance for doubtful accounts of $1,476,000 and $523,000	25,284,136	22,667,057
Income taxes receivable (Note 8)	1,264,000	—
Inventories (Note 2)	6,024,216	5,413,222
Deferred income taxes (Note 8)	3,421,000	5,952,000
Prepaid expenses	4,157,024	3,013,035
Total current assets	146,365,835	113,212,945
Equipment and leasehold improvements, at cost	35,411,137	24,651,632
Less accumulated depreciation and amortization	17,854,882	11,380,135
	17,556,255	13,271,497
Software development costs (Note 3)	12,338,756	12,801,350
Note receivable from and investment in affiliate (Note 4)	1,400,000	1,575,000
Other assets	907,878	320,628
	$178,568,724	$141,181,420
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 5,290,103	$ 5,288,846
Accrued compensation and benefits	2,493,431	2,125,343
Accrued royalties	2,029,524	766,448
Accrued promotional costs	2,631,746	2,458,818
Other accrued liabilities	5,415,273	5,294,427
Deferred technical support revenue	1,456,245	1,579,807
Income taxes payable (Note 8)	—	3,867,000
Total current liabilities	19,316,322	21,380,689
Deferred income taxes (Note 8)	3,923,000	4,011,000
Commitments (Note 9)		
Shareholders' equity (Notes 6 and 7):		
Common stock—40,000,000 shares authorized; 14,783,190 issued and outstanding (14,123,506 in 1990)	64,226,461	49,275,587
Retained earnings	89,223,090	65,386,133
Translation adjustments	1,879,851	1,128,011
Total shareholders' equity	155,329,402	115,789,731
	$178,568,724	$141,181,420

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31,	1991	1990	1989
Net sales	$167,529,963	$134,983,442	$98,616,071
Cost of sales	32,589,817	26,432,678	20,968,597
Gross margin	134,940,146	108,550,764	77,647,474
Sales and marketing	57,211,460	44,060,847	31,734,493
General and administrative	24,465,816	18,797,123	12,893,139
Software development costs:			
Research and development	14,125,369	11,735,700	8,665,803
Amortization of capitalized software development costs	9,288,256	3,719,073	3,230,680
Income from operations	29,849,245	30,238,021	21,123,359
Interest income, net	5,042,343	5,051,423	3,709,963
Other income (expense), net	(210,631)	(24,753)	667,684
Income before provision for income taxes	34,680,957	35,264,691	25,501,006
Provision for income taxes (Note 8)	10,844,000	11,504,000	8,424,000
Net income	$ 23,836,957	$ 23,760,691	$17,077,006
Net income per share	$ 1.54	$ 1.63	$ 1.22
Weighted average number of common shares	15,488,848	14,557,000	14,051,074

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock		Retained Earnings	Translation Adjustments	Total
	Shares	Amount			
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
Income tax benefit related to stock options (Note 6)	—	2,191,780	—	—	2,191,780
Capital contribution —Silicon Beach Software	—	300,000	—	—	300,000
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
Capital contribution —Silicon Beach Software	—	500,000	—	—	500,000
Shareholder distribution —Silicon Beach Software	—	—	(440,605)	—	(440,605)
Elimination of deferred tax liability (Note 10)	—	—	951,214	—	951,214
Currency translation adjustment, net of deferred taxes of $1,083,000	—	—	—	2,311,847	2,311,847
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
Exercise of stock options (Note 6)	659,684	9,609,993	—	—	9,609,993
Income tax benefit related to stock options (Note 6)	—	5,340,881	—	—	5,340,881
Currency translation adjustment, net of deferred taxes of $387,000	—	—	—	751,840	751,840
Net income	—	—	23,836,957	—	23,836,957
Balance, December 31, 1991	14,783,190	$64,226,461	$89,223,090	$1,879,851	$155,329,402

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,	1991	1990	1989
Cash flows from operating activities:			
Net income	$23,836,957	$23,760,691	$17,077,006
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	15,680,245	7,706,294	6,610,601
Provision for deferred income tax	2,051,000	(1,276,000)	(317,000)
Increase in trade receivables	(2,601,787)	(5,936,397)	(1,263,643)
Decrease (increase) in inventories	(736,657)	(784,320)	3,730,274
Decrease (increase) in prepaid expenses	(1,183,680)	97,681	1,424,725
Increase in accounts payable and accrued liabilities	2,170,062	2,153,939	1,296,999
Increase (decrease) in deferred technical support revenue	(123,562)	862,034	176,746
Increase (decrease) in income taxes payable	(4,649,209)	605,081	3,623,523
Acquisition expenses paid by Silicon Beach Software shareholder	—	500,000	—
Net cash provided by operating activities	34,443,369	27,689,003	32,359,231
Cash flows from investing activities:			
Sales (purchases) of marketable securities and other investments, net	(31,437,419)	1,254,159	(9,297,619)
Equipment and leasehold improvements purchased	(10,720,916)	(9,157,494)	(3,944,310)
Payments received on note receivable from affiliate	175,000	175,000	—
Purchases of software technology	(975,000)	(2,475,000)	(1,715,225)
Capitalized software development costs	(7,842,101)	(7,422,236)	(4,779,699)
Other	(571,472)	59,754	33,932
Net cash used by investing activities	(51,371,908)	(17,565,817)	(19,702,921)
Cash flows from financing activities:			
Decrease in lines of credit	—	—	(252,548)
Principal payments under lease obligations	—	(165,899)	(120,517)
Long-term debt	—	—	(236,279)
Proceeds from stock options exercised	9,609,993	4,098,954	850,177
Tax benefit from stock options exercised	5,340,881	3,538,359	2,191,780
Silicon Beach Software shareholder contributions	—	—	300,000
Silicon Beach Software shareholder distribution	—	(440,605)	(1,692,000)
Net cash provided by financing activities	14,950,874	7,030,809	1,040,613
Effect of foreign currency exchange rates on cash and cash equivalents:	588,074	726,968	(188,255)
Increase (decrease) in cash and cash equivalents	(1,389,591)	17,880,963	13,508,668
Cash and cash equivalents at beginning of year	62,386,558	44,505,595	30,996,927
Cash and cash equivalents at end of year	$60,996,967	$62,386,558	$44,505,595
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$ 72,180	$ 89,201	$ 138,256
Income taxes	$ 6,619,259	$ 8,714,000	$ 2,457,850

See accompanying notes.

Notes To Consolidated Financial Statements

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.

For 1991, 1990, and 1989, sales to one unaffiliated customer accounted for 16.1 percent, 15.8 percent, and 17.2 percent of Aldus' consolidated net sales, respectively.

In February 1990, Aldus acquired Silicon Beach Software Inc. ("Silicon Beach Software"), a microcomputer software publisher, through a pooling of interests. Accordingly, Aldus' 1990 and 1989 financial statements have been restated to include the accounts and results of operations of Silicon Beach Software.

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

Assets and liabilities of Aldus' foreign subsidiaries are translated to U.S. dollars at year-end exchange rates. Income and expense items 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.

Aldus enters into foreign exchange contracts hedging certain exposure to changes in foreign currency exchange rates. This exposure results from Aldus' foreign operations that are denominated in currencies other than the U.S. dollar. Gains and losses from foreign currency transactions and from forward exchange contracts used to hedge currency fluctuations are included in other income. At December 31, 1991, there were no forward exchange contracts outstanding.

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 has policies permitting dealers and distributors to exchange products under certain circumstances, but generally does not permit return of products for credit or refund. Estimated exchanges are reflected as a reduction of sales and cost of sales in the period of the original sale.

Cash and Cash Equivalents

Aldus considers investments in highly liquid debt instruments and money market preferred stocks with maturities of 90 days or less at the date of purchase 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.

NOTE *1* *(continued)*

Significant Accounting Policies

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.

Software Development Costs

Generally, costs related to research, design, and development of computer software are expensed as incurred. As prescribed by current accounting rules, certain software development costs related to completion of 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.

Royalty Costs

Royalties paid on software incorporated in Aldus products 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, 1991, 1990, and 1989 was $6,819,000, $4,142,000, and $3,569,000, 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," 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 implementation of the statement until years beginning after December 15, 1992. Aldus intends to adopt the standard in 1993. The effect of adopting the standard on Aldus' financial position and results of operations will not be material.

Diversification of Credit Risk

Aldus is subject to concentrations of credit risk primarily from cash investments and accounts receivable. Credit risk from cash investments is managed by diversification of Aldus' investment portfolio and by the purchase of investment-grade securities. Credit risk associated with trade receivables is limited due to the geographic diversity of Aldus' customers and ongoing credit evaluations. Aldus also maintains reserves for potential losses and all credit losses to date have been within management's expectations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE *1* *(continued)*

Significant Accounting Policies

Per-Share Information

Net income per share is computed using the weighted average number of common and common-equivalent shares outstanding. The computation, using the treasury stock method, assumes that the proceeds from the exercise of stock options, including tax benefits, 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 10) are considered outstanding for all periods presented.

NOTE *2*

Inventories

Inventories as of December 31:	1991	1990
Components and work in process	$1,119,255	$1,464,116
Finished goods	4,904,961	3,949,106
	$6,024,216	$5,413,222

NOTE *3*

Capitalized Software Development Costs

Capitalized software development costs as of December 31:	1991	1990
Software development costs	$19,901,577	$19,403,901
Accumulated amortization	(7,562,821)	(6,602,551)
	$12,338,756	$12,801,350

NOTE 4

Transactions With Affiliates

Aldus has contracted with McQueen Holdings Limited ("McQueen") for various printing, assembly, and warehousing services. Aldus holds a 10 percent equity interest in McQueen and a $525,000 convertible note receivable due October 31, 1993. Aldus' investment in McQueen is accounted for at cost. Purchases from McQueen amounted to $9,271,000, $6,824,000, and $4,234,000 for the years ended December 31, 1991, 1990, and 1989, 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. In January 1992, Aldus and Something Good signed a non-binding statement of intent to form a Japanese joint venture company to localize and distribute Aldus products in Japan. Sales to Something Good were immaterial in 1991, 1990, and 1989.

NOTE 5

Lines of Credit

Aldus has three unsecured bank lines of credit, a working capital line, and two foreign exchange lines. The $3,000,000 working capital line of credit expires May 1, 1992, and generally bears interest at the bank's prime rate (6.5 percent at December 31, 1991). The $5,000,000 and $4,000,000 foreign exchange lines are available for hedging foreign currencies for up to one year. As of December 31, 1991, no amounts were outstanding on these lines.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE *6*

Stock Option Plans

Aldus has various stock option plans for directors, officers, and employees that provide for nonqualified and incentive stock options. The options are generally nonqualified options 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 the exercise of nonqualified stock options is reported as an addition to shareholders' equity.

At December 31, 1991, options for 748,675 shares were exercisable and 1,548,573 shares were available for future grants. Option activity for the three years ended December 31, 1991, was as follows:

	Number	Price Per Share	Aggregate
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
Granted	1,022,450	$24.00 — $49.00	34,856,897
Cancelled	(142,878)	$ 8.30 — $48.25	(2,672,438)
Exercised	(659,684)	$ .12 — $25.75	(9,609,993)
Balance outstanding, December 31, 1991	2,797,659	$ .02 — $49.00	$63,710,440

NOTE *7*

Employee Stock Purchase Plan

Aldus initiated an employee stock purchase plan in July 1991 for all domestic employees with six months of service. Under the plan, shares of Aldus' common stock may be purchased at six-month intervals at 85 percent of the lower of the fair market value on the first or last day of each six-month period. Employees may purchase shares having a value up to 10 percent of their gross compensation during an offering period. During 1991, 9,800 shares were issued under the plan at a price of $32.51. At December 31, 1991, 290,200 shares were reserved for future issues.

NOTE 8

Income Taxes

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

	1991	1990	1989
Current:			
Federal	$ 6,901,000	$ 9,882,000	$6,339,000
State	836,000	780,000	581,000
Foreign	1,056,000	2,118,000	1,821,000
Total current	8,793,000	12,780,000	8,741,000
Deferred:			
Federal	1,656,000	(1,310,000)	(237,000)
State	214,000	(53,000)	—
Foreign	181,000	87,000	(80,000)
Total deferred	2,051,000	(1,276,000)	(317,000)
	$10,844,000	$11,504,000	$8,424,000

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

	1991	1990	1989
Software development costs deducted (not deducted) for tax purposes	$ (575,000)	$ 1,665,000	$ 921,000
Tax depreciation different from financial accounting depreciation	25,000	(83,000)	(168,000)
Intercompany profit	2,808,000	(2,166,000)	(505,000)
Reserves and expenses not currently deductible	(207,000)	(692,000)	(565,000)
	$ 2,051,000	$ (1,276,000)	$ (317,000)

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

	1991	1990	1989
Statutory federal income tax provision	$11,792,000	$11,990,000	$8,671,000
Foreign sales corporation benefit	(432,000)	(892,000)	(500,000)
State taxes, net of federal benefit	693,000	480,000	718,000
Tax-exempt interest and dividends	(1,163,000)	(928,000)	(653,000)
Other, net	(46,000)	854,000	188,000
Provision for income taxes	$10,844,000	$11,504,000	$8,424,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE *9*

Leases

Aldus has operating leases for its corporate office, domestic distribution center, 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, 1991, 1990, and 1989 was $5,225,000, $3,479,000, and $3,081,000, respectively. Minimum rental commitments for equipment and facilities under noncancelable operating leases are as follows:

Year	Amount
1992	$ 5,746,000
1993	4,897,000
1994	3,539,000
1995	1,972,000
1996	917,000
Thereafter	15,225,000
Total	$32,296,000

NOTE *10*

Silicon Beach Software Acquisition

In February 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 was accounted for as a pooling of interests. For 1989, Silicon Beach Software was a Subchapter "S" corporation and, as required, the combined 1989 financial results of Aldus and Silicon Beach Software were adjusted to reflect a provision for income taxes as though Silicon Beach Software were a "C" corporation for 1989. Deferred taxes of $951,000, resulting from the adjustment to provide for income taxes as though Silicon Beach Software were a "C" corporation, 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	1989
	January 1–February 23	
Net sales		
Aldus	$15,766,000	$87,853,000
Silicon Beach Software	913,000	10,763,000
	$16,679,000	$98,616,000
Net income		
Aldus	$ 3,380,000	$15,493,000
Silicon Beach Software	112,000	2,667,000
Adjustments	—	(1,083,000)
	$ 3,492,000	$17,077,000
Net income per share		
Previously reported	$ .26	$ 1.21
Restated	$ .25	$ 1.22

NOTE 11

Geographic and Other

Aldus' net sales and income before income taxes for the years ended December 31, 1991, 1990, and 1989, and the identifiable assets at each respective year-end, are presented below (in thousands):

	United States	Europe	Eliminations	Consolidated
1991				
Sales to unaffiliated customers	$102,137	$65,393	$ —	$167,530
Transfers between geographic areas	28,138	—	(28,138)	—
Total revenues	$130,275	$65,393	$ (28,138)	$167,530
Income before income taxes	$ 39,624	$ 1,650	$ (6,593)	$ 34,681
Identifiable assets	$170,667	$42,777	$ (34,875)	$178,569
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

Intercompany transfers between geographic areas are recorded at amounts representative of unaffiliated party transactions. Included in "Sales to unaffiliated customers" (United States) are export sales of $16,007,000, $10,842,000, and $9,065,000 in 1991, 1990, and 1989, respectively.

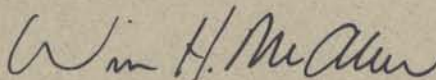# REPORTS OF MANAGEMENT AND INDEPENDENT AUDITORS

**Report of
Management**

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 meet regularly with members of the Audit Committee to discuss the results of their audit and 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 3, 1992

Report of Ernst & Young, Independent Auditors

To the Board of Directors and Shareholders
Aldus Corporation

We have audited the consolidated balance sheets of Aldus Corporation as of December 31, 1991 and 1990, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1991. 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, 1991 and 1990, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1991, in conformity with generally accepted accounting principles.

Ernst + Young

Seattle, Washington
February 3, 1992

SUPPLEMENTAL FINANCIAL INFORMATION

Quarterly Consolidated Results of Operations (unaudited)

(in thousands, except per-share data)

1991	March 29	June 28	September 27	December 31
Net sales	$40,266	$44,277	$40,292	$42,695
Income from operations	7,813	9,879	6,738	5,419
Income before provision for income taxes	9,207	11,026	7,931	6,517
Net income	6,261	7,607	5,472	4,497
Net income per share	$ .41	$ .49	$ .35	$ .29
Common stock prices*				
High	$ 55.00	$ 59.88	$ 45.50	$ 45.00
Low	$ 24.00	$ 36.00	$ 32.00	$ 32.50

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

*Aldus common stock is traded on the NASDAQ National Market System under the symbol ALDC.

Aldus has never paid dividends on its common stock and has historically retained earnings for use in its business.

Executive Team

*Back row,
left to right:*

Curt Blake
General Counsel

Bill McAleer
*Vice President,
Finance; Secretary*

Sandy Smith
*Vice President,
Operations*

Steve Cullen
*Vice President;
General Manager,
Silicon Beach
Software*

Aaron Howard
*Vice President,
Aldus USA*

*Front row,
left to right:*

Derek Gray
*Managing Director,
Aldus Europe*

John O'Halloran
*Director,
Aldus Pacific Rim*

Paul Brainerd
*President; Chief
Executive Officer*

Phil Herres
*Chief Operating
Officer*

Corporate Directory

Officers

Paul Brainerd
*President, Chief
Executive Officer*

Phil Herres
*Chief Operating
Officer*

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

Derek Gray
*Managing Director,
Aldus Europe Ltd.*

Aaron Howard
*Vice President,
Aldus USA*

Bill McAleer
*Vice President,
Finance; Secretary*

Sandy Smith
*Vice President,
Operations*

Dave Eckert
Treasurer

Board of Directors

Gary P. Arnold
*Vice President, Chief
Financial Officer
Tektronix Inc.*

Paul Brainerd
*President; Chief
Executive Officer*

Gene P. Carter
Investor

Douglas G. DeVivo
*General Partner
Vanguard Associates II*

Andrew V. Smith
*Retired President,
U S WEST
Communications*

Legal Counsel

Perkins Coie
Seattle, Washington

Independent Auditors

Ernst & Young
Seattle, Washington

Transfer Agent

**First Interstate Bank
of Washington**
Seattle, Washington
1-800-522-6645

Annual Meeting

The annual meeting will be held on Tuesday, May 5, 1992, at 10 a.m., at the Washington State Convention & Trade Center, Seattle, Washington. All Aldus shareholders are encouraged to attend. For more information, call Aldus Investor Relations, (206) 622-5500.

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
(206) 622-5500

WORLDWIDE OPERATIONS

SEATTLE, WASHINGTON

Corporate Headquarters—Engineering and third party development; finance; legal; marketing; documentation; manufacturing and operations

Aldus USA—Sales, service, marketing, and *Aldus Magazine*

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. and Ireland

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

SYDNEY, AUSTRALIA

Aldus Australia—Sales support and marketing for Australia and New Zealand

AMERSFOORT, THE NETHERLANDS

Aldus Benelux—Sales, service, and customer training center for Belgium, The Netherlands, Luxembourg

ALDUS ®