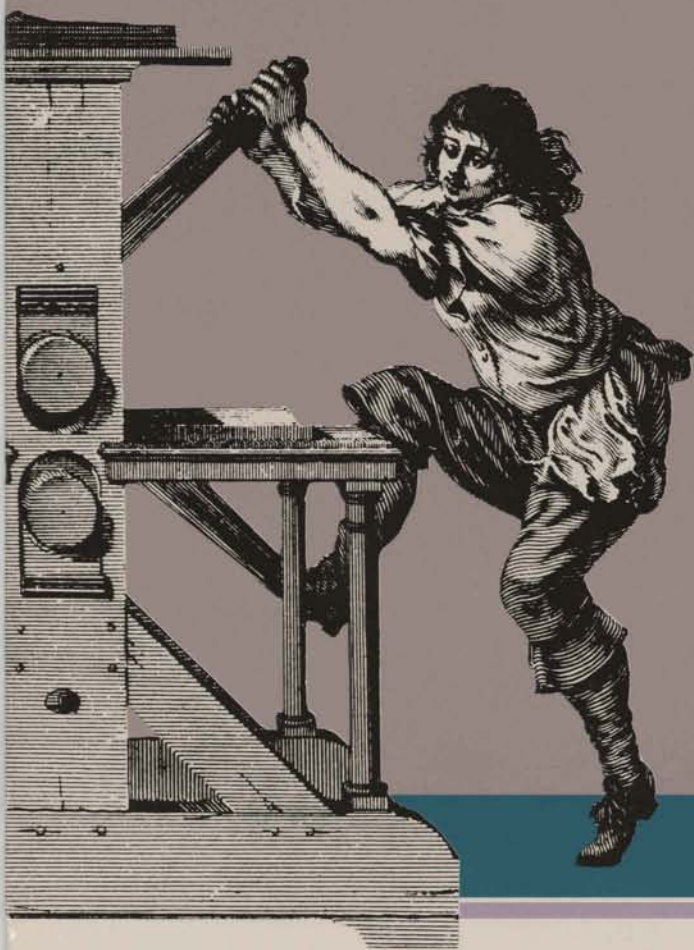


*Adobe  
Systems  
Incorporated*



*Annual Report 1986*

## Corporate Profile

**A**dobe Systems Incorporated designs, develops and markets systems software used in laser printers, typesetters and other raster output devices to print integrated text and graphics for high quality electronic printing and publishing applications. The Company's principal product, the POSTSCRIPT language interpreter, executes page descriptions generated from applications programs that support the POSTSCRIPT language to produce documents containing multiple typefaces and graphics, including charts, diagrams, drawings and photographic images. Because the POSTSCRIPT page description language is device independent, applications programs that have been written to support POSTSCRIPT can be used interchangeably with any printer that contains a POSTSCRIPT interpreter, from inexpensive, low resolution raster printers to extremely high resolution typesetters.

## Financial Highlights

(In thousands except per share and ratio data)

Year Ended November 30,

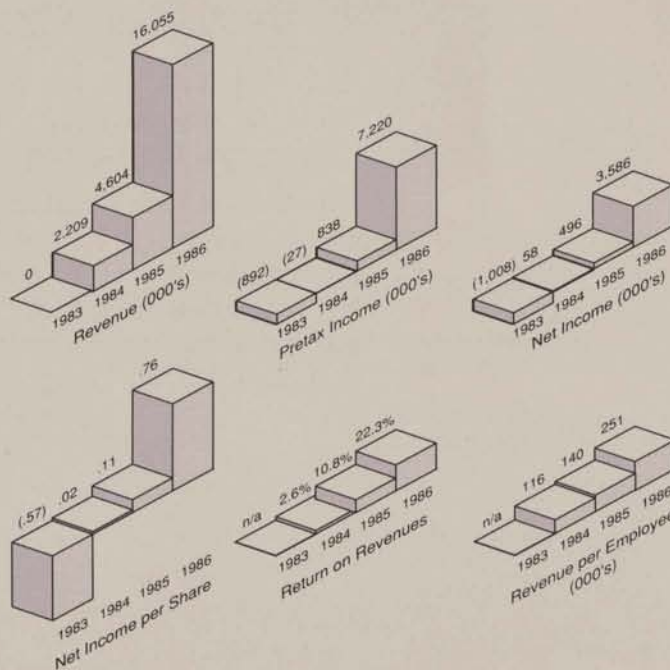
Income Statement	1986	1985	1984	1983
Revenue	\$ 16,055	4,604	2,209	—
Income (loss) before income taxes	7,220	838	(27)	(892)
Net income (loss)	3,586	496	58	(1,008)
Net income (loss) per share	.76	.11	.02	(.57)
Shares used in per share computation	4,728	4,532	3,610	1,758

### Balance Sheet

Working capital	\$ 11,474	3,148	3,263	947
Total assets	20,016	6,074	4,543	1,781
Shareholders' equity	13,719	4,646	4,150	1,562

### Key Ratios

Current ratio	3.2	3.8	9.3	6.4
Return on revenue	22.3%	10.8%	2.6%	n/a
Revenue per employee	\$ 251	140	116	—





## To Our Shareholders

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The year 1986 was eventful for the printing and publishing industry and a year of growth for Adobe Systems Incorporated. In almost every computer industry show, conference and trade magazine, the term "Desktop Publishing" became commonplace. This term is used to characterize a rapidly growing group of computer systems and programs that have changed the way printed material is produced in business. This new use of personal, mini and mainframe computers is penetrating almost every aspect of business communication.

Adobe Systems is participating as a strategic component in this rapidly growing market. Our activity is focused in three key areas.

Adobe's POSTSCRIPT® page description language, is being adopted by a growing number of companies for use in their laser printers. POSTSCRIPT's widespread use is making it a *de-facto* standard for controlling laser printers. Seventeen different printers incorporating POSTSCRIPT interpreters are now offered by thirteen companies. Additionally, the language is supported by more than 180 software firms.

Adobe Systems also develops a variety of character styles (typefaces) that are used with laser printers. Because of the large installed base of POSTSCRIPT machines, and our aggressive typeface development schedule, Adobe's business of supplying typefaces to users is growing at a steady rate. This technically difficult and time consuming expansion of our library is also increasing the barrier to entry for companies with competitive language interpreters.

This last year we developed cheaper and faster printer controller designs for use by our customers. We organized our internal development systems so that we can bring customers to market in a more timely manner. And we implemented a variety of printer controller emulators for use with POSTSCRIPT interpreters in our customers' machines.

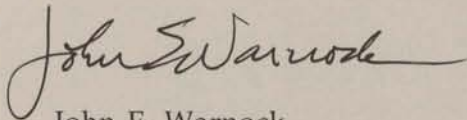
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We have also increased our research and development aimed at new products and technologies. This development effort will diversify our business base, but will also strengthen our current activities.

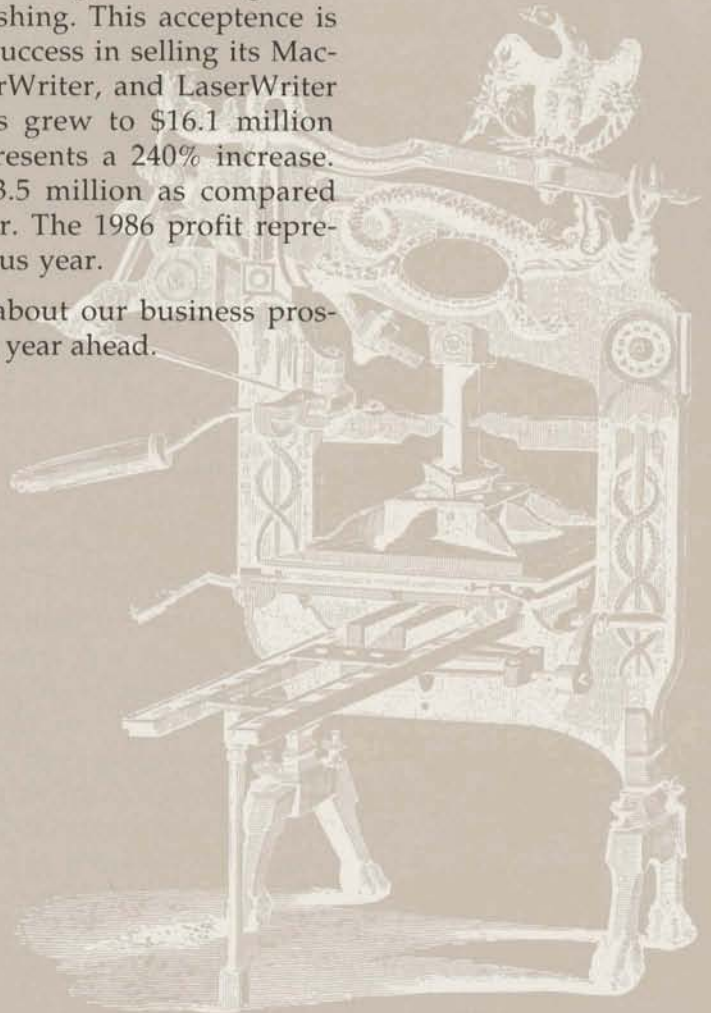
In 1984 XEROX announced Interpress, a competing language to POSTSCRIPT. Although XEROX has delivered a reduced-functionality version of Interpress on a few machines, we believe that the presently available level of Interpress does not compete effectively with POSTSCRIPT. In 1986 Imagen announced DDL, another competing language. This company has not as yet delivered a product to the marketplace. We expect, however, that Imagen's customer, Hewlett Packard, will ship machines in the first half of calendar 1987.

Although the general computer market has experienced a slowdown during 1986, our business has grown through the buyer's acceptance of Desktop Publishing. This acceptance is due primarily to Apple Computer's success in selling its Macintosh computer along with its LaserWriter, and LaserWriter Plus printers. In 1986 our revenues grew to \$16.1 million from \$4.6 million in 1985. This represents a 240% increase. Our net income in 1986 grew to \$3.5 million as compared with \$.5 million in the previous year. The 1986 profit represents a 623% increase over the previous year.

We at Adobe Systems feel positive about our business prospects, and look forward to an exciting year ahead.



John E. Warnock  
*President, and Chief Executive Officer*





The majority of Adobe's revenue comes from the POSTSCRIPT family of products. POSTSCRIPT is a software system that is configured into the controlling computer built inside a laser printer. This software is responsible for accepting commands, from an application program, describing the appearance of the page, converting those commands into a digital image formatted for the printer, and controlling the printer to produce the image onto paper. The most popular printers incorporating this software are the Apple LaserWriter, and LaserWriter Plus. Other announced printers using POSTSCRIPT include the Agfa-Gevaert P400PS, Apollo Domain/Laser 26, Dataproducts LZR-2665, DEC PrintServer 40, Diconix Dijit 1/PS, ITT Qume ScripTEN, The Laser Connection PS Jet, Linotype 100 and 300, NEC SilentWriter LC-890, NBI Model 908, QMS PS800 and PS2400, and the Texas Instruments OMNILASER 2108 and 2115.

Adobe licenses POSTSCRIPT to each of its customers on a royalty basis. i.e. For each printer incorporating the POSTSCRIPT interpreter the customer sells, a royalty is paid to Adobe. Currently 13 different companies offer a total of 17 different POSTSCRIPT printers in the marketplace. These printers cover a broad spectrum of resolutions, speeds, and paper formats.

Over the past four years the POSTSCRIPT implementation has evolved through several phases of development. The years 1983-84 were spent designing and developing the initial concepts behind the first implementations of the technology. During the first stage of development the techniques used to size characters over a variety of typefaces were invented. From the beginning, the implementation was engineered in anticipation of a variety of different controller configurations and a broad range of output devices.

In 1985 the first high volume POSTSCRIPT product, the Apple LaserWriter, was announced. During the year, Adobe broadened its base of support for the POSTSCRIPT page description language by extending the implementation to configurations that drive both high resolution typesetters and a variety of different print engines. To facilitate the adoption of POSTSCRIPT by its OEM customers and to minimize the product development cycle, Adobe undertook the design of a family of controllers well suited to driving laser printers



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and typesetters. Early in 1985 Adobe made its first printer controller design, based on a Motorola 68000, available to its customers for use in their printers. This original controller design and its successors are now used in the majority of POSTSCRIPT printing systems.

1986 was a year dedicated to increasing the performance of POSTSCRIPT and to reducing the controller costs associated with printer configurations. The software performance of POSTSCRIPT has been substantially increased. In many cases, especially those involving scanned images, performance bottlenecks have been reduced or eliminated. In addition, Adobe Systems introduced in 1986 two new controller designs. One controller, a second generation 68000 design, is designed to minimize the hardware cost while maintaining the original performance goals. The second controller, based on a Motorola 68020 processor, is designed to maximize throughput while maintaining the basic compatibility with the 68000 designs.

During 1986, the printing and publishing trade press began to refer to POSTSCRIPT as the *de-facto* standard of page description languages. This observation results not only from the broad range of companies that offer POSTSCRIPT products but also from the ever-growing support base of third party software packages that drive POSTSCRIPT printers and typesetters.

As we look forward into 1987, we anticipate that POSTSCRIPT products will expand to meet several new market requirements. First, color imaging technology will become available in direct hardcopy devices, in slide-making equipment, and in imagesetters that can produce separations for color printing. Network based printing services will become more prevalent as will higher speed POSTSCRIPT machines. The POSTSCRIPT font technology will be expanded into the non-roman alphabets, most notably to Japanese and Chinese.

Because of Adobe's extensive on going development being performed on the POSTSCRIPT system to expand its capability and keep it abreast of current technology, we believe that the POSTSCRIPT product will maintain its competitive edge and enhance its leadership position.

