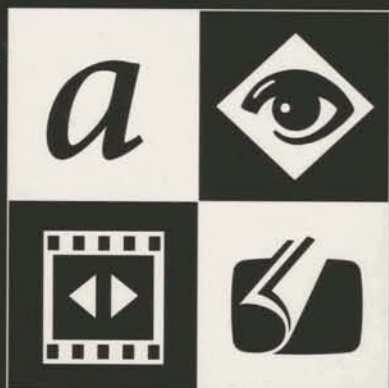


ADOBE SYSTEMS INCORPORATED
1992 ANNUAL REPORT

IMAGES

WORDS



SYSTEMS

ACTION

the means of

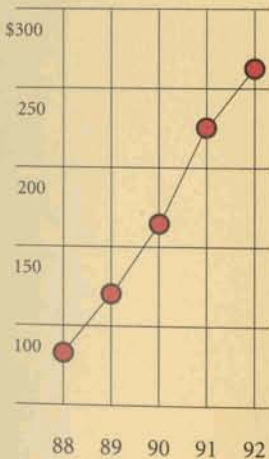
Expression

Financial Highlights

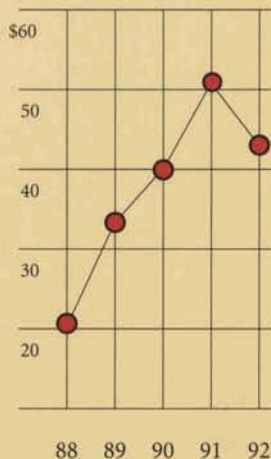
(Dollars in thousands, except per share data)

Fiscal Year Ended	Nov. 27 1992	Nov. 29 1991	Nov. 30 1990	Dec. 1 1989	Nov. 30 1988
Revenue	\$ 265,931	\$ 229,653	\$ 168,730	\$ 121,358	\$ 83,483
Income before income taxes	69,530	83,598	66,291	54,853	35,750
Net income	43,610	51,607	40,070	33,706	21,080
Net income per share	1.87	2.25	1.83	1.55	.98
Cash and short-term investments	159,840	116,336	69,664	49,666	35,176
Working capital	167,603	124,671	71,844	44,183	32,525
Total assets	281,340	221,195	145,701	94,139	65,460
Shareholders' equity	224,587	182,750	107,800	58,825	44,297
Dividends declared per share	.32	.32	.24	.20	.12
Worldwide employees	887	701	508	383	291

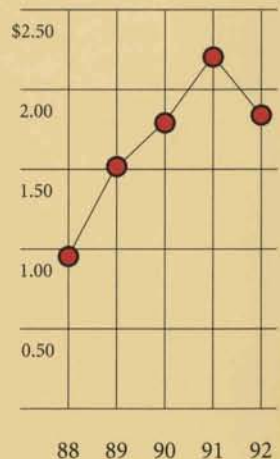
Revenue
(In millions)



Net Income
(In millions)



Earnings Per Share



T

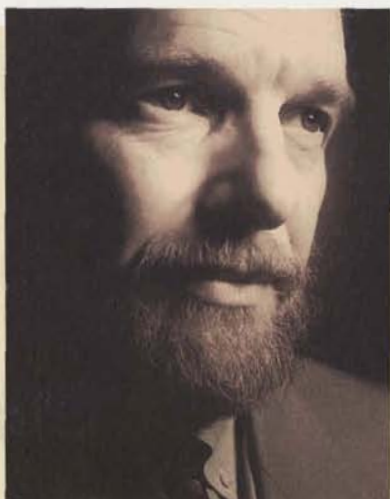
our shareholders

THE YEAR 1992 was one of investment for Adobe. By investing in technologies and future products, we positioned the company for growth in the years ahead – a strategy that was challenging during the past year, because it meant a higher cost structure and reduced margins from our ongoing businesses in an already difficult economy. Despite these challenges, we were able to achieve \$265,931,000 in revenue in 1992, an increase of 16 percent over 1991. Reflecting technology investments, including a \$6,325,000 write-off of in-process research and development associated with an acquisition, our net income of \$43,610,000 was down 16 percent from the previous year's figure of \$51,607,000, and our earnings per share were \$1.87, declining 17 percent compared with \$2.25 in 1991. Although this was below our past levels of performance, we anticipate return on these investments in 1993 and beyond. Net income was also adversely impacted by a \$6,000,000 loss on a real estate partnership. The combined effect of the loss on the partnership and the write-off of in-process research and development was to reduce net income by \$7,728,000 and earnings per share by \$.33. ¶ THE NUMBER OF products based on the PostScript™ language continues to expand as new technologies such as PostScript Fax, introduced in June 1992, demonstrate. Adobe's PostScript language is the basis for a growing family of software that we believe will shape the future of digital communication. ¶ POSTSCRIPT LEVEL 2 software came of age in 1992, as OEMs brought PostScript Level 2 printers to market. The vigorous growth in demand for these devices opens

opportunities for both PostScript language and Adobe. To facilitate faster development of PostScript devices without compromising our recognized standards of engineering and quality assurance, Adobe has made a considerable two-year investment to restructure the engineering environment so that our OEM partners can participate more directly in the process of developing their products. We call this process "cooperative development." Cooperative development is now underway, and is expected to enable Adobe and our OEMs to bring PostScript products to market sooner and increase their overall sales volume. ¶ OUR APPLICATION PRODUCTS Division made major investments in new platforms, new applications, and upgrading applications. This activity furthered one of Adobe's primary strategic goals in 1992: building a technology framework so that our applications can be easily moved from computer to computer. This technology is not limited to just the porting of the software, but also includes difficult aspects of cross-platform testing and quality assurance. We believe that, in a computer business environment that is changing so rapidly, the cross-platform versatility of Adobe™ software is a critical advantage for customers. ¶ ADOBE PREMIERE™ AND Adobe Type Manager™ software were significantly upgraded and showed good sales

The means of expression in a

performance in 1992. Our investments this year in Adobe Photoshop™ and Adobe Illustrator™ software, including new editions for the Windows platform, will result in equally significant upgrades in 1993. These new versions will vastly improve the effectiveness and usefulness of both applications while widening their markets with fully compatible versions for Macintosh, Windows and UNIX environments. ¶ ADOBE IS, ABOVE all, an advanced technology company. Our goal is to expand productivity in the workplace by improving how people communicate using computer technology. Over the past 18 months, Adobe engineers have brought together some of the most powerful technologies to move communications to a new level of efficiency. We call the resulting product family Adobe Acrobat™. ¶ THE NEW ADOBE Acrobat products are of compelling importance to business users because communication in a corporate world cannot be limited to just one kind of computer. Most corporations own and support many kinds of computers, as networks grow in size and diversity. Adobe Acrobat software will enable these machines to communicate documents to each other across operating platforms, preserving the richness and depth of each document. For the first time, electronic transmission of digital documents – even between unlike



[JOHN
E. WARNOCK]

[CHARLES
M. GESCHKE]



digital world.

computers - will be easier and faster than sending hard copies. **IN USE** WITHIN Adobe and selected test sites, and in a demonstration at the Fall 1992 COMDEX trade show, Adobe Acrobat technology has begun to meet the high expectations that we and the industry set for it. We believe that this technology is not just another computer application, but instead is a base for changing the way corporations do business. Many future systems and applications will result from Adobe Acrobat software. From our experience with customers and potential users, we have every reason for confidence in our vision for Adobe Acrobat technology. It will enter the marketplace in 1993. Investing in the future is especially difficult in a tough economy. Because Adobe had the financial strength and the resolve to look to the long term during 1992, we believe we have the right technologies, products and positioning to take us into 1993 and beyond.

A handwritten signature in black ink that reads "John E. Warnock".

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

A handwritten signature in black ink that reads "Charles M. Geschke".

CHARLES M. GESCHKE
*President and
Chief Operating Officer*

[This is not a computer.]



A c t u a l l y ,
it is a computer. But when it
only crunches numbers or
processes words and inserts
them into featureless spreadsheets or
reports, it's only doing half its job.
The other, more important half is to
communicate all that data in an effective,
meaningful way. Before Adobe introduced
the PostScript page-description language,
personal computer users had almost no access to
the richness of format, typography and illustration
that adds expressiveness to digital communication.
Without these capabilities, computers can only compute –
often just adding to the rising tide of information, cluttering
more than they communicate.

WITH POSTSCRIPT SOFTWARE and the growing families of products and technologies that go with it, computers enhance communication and magnify the human mind. They liberate our creativity, enabling us to express ideas in words, in images and in action. By opening this full spectrum of digital expression, and by providing the underlying systems to communicate information fully and freely throughout the digital world, Adobe has multiplied the computer's power in a way that can't be measured in bytes.

The Means of Expression for Any Idea, Anywhere ¶ WHEN ADOBE'S POSTSCRIPT page-description language became available in 1985, users were finally able to incorporate text, graphics and images in documents and output them on devices such as the Apple LaserWriter, the first commercially available printer to contain a PostScript interpreter. The visual richness of the page was now available to desktop computer users, not just professional publishers. ¶ ACCEPTED AS THE lingua franca, or universal language, of the printer world, today's PostScript technology allows the free flow of digitized text, images, color and graphics from computer to output device. PostScript software has emerged as the language of choice for personal computers to print all kinds of information within and across major hardware platforms and operating systems. ¶ POSTSCRIPT LANGUAGE TECHNOLOGY also forms the foundation for thousands of applications that let users create and manipulate typography, video, audio, images and graphics in digital form. Some of the most innovative and popular of these applications are developed at Adobe.

PostScript: The Future of Digital Communication ¶ WITH EVERY DEVELOPMENT in computer technology, it becomes clearer that traffic on the "digital highway" of telephone lines, computer networks and other information generated by computers is multiplying beyond the potential to print, send or store hard copies. At the same time, digital information has become the ascendant medium for home entertainment and personal communication. ¶ ADOBE IS LEADING these trends of increased digital expression, basing products on PostScript, the platform-independent language that holds almost limitless extensibility. Using the computer to express creativity in photography, or video, or illustration was once limited to expensive, dedicated or preconfigured systems; now personal computers

and Adobe software are putting these tools on the desktop, within reach of a wider market. Equally important, we are facilitating simpler, more direct communication between all sorts of computers without any loss of the richness or depth that gives information its value.

Looking to the Next Level ¶ AT ADOBE, WE'VE found that the most advanced, powerful solutions are often the ones that make a quantum leap toward greater simplicity. Finding them requires the vision to see the broader principle that underlies an immediate need ... to find a new class of solutions or a category of technology, rather than make gradual, incremental improvements. ¶ **THIS DRIVE FOR** simple elegance led us to develop the platform independence of the PostScript language. Like the products based on it, the PostScript language – now in the more powerful, efficient form of PostScript Level 2 – is under continuing development. Further tapping the power of the PostScript language, new Adobe Acrobat software will preserve the appearance of documents, regardless of the sending or receiving hardware or software. Scheduled for release this year, Adobe Acrobat products will make paperless document transmission and storage simple and practical. ¶ **AS THE TECHNOLOGICAL** framework of PostScript language-based products and applications continues to evolve, so do the knowledge and sophistication of the computing public.

*Adobe provides the
communication capabilities that stand
behind computer users everywhere...
enabling them to*

express
whatever,
wherever.

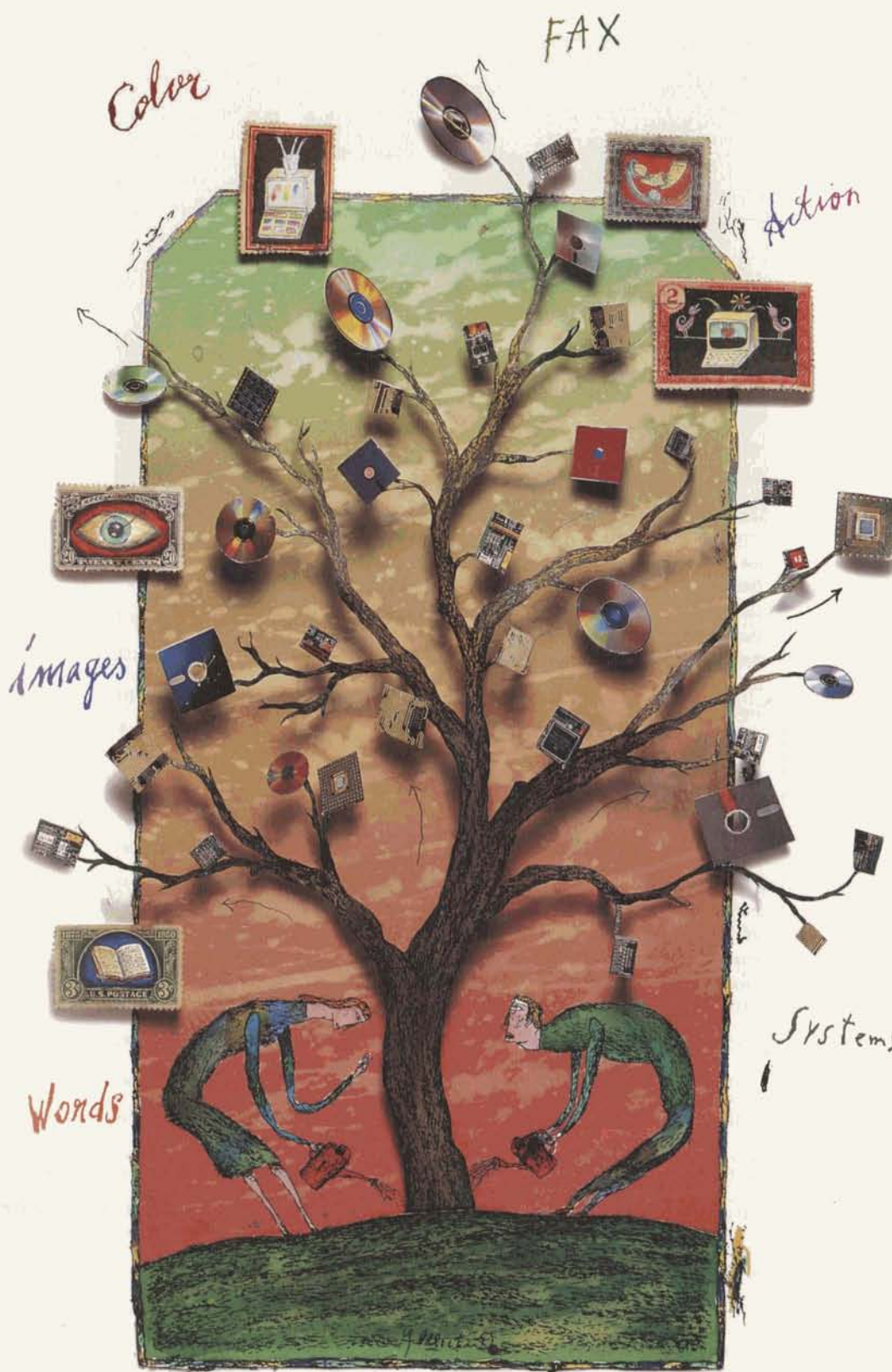


The Common denominator

PostScript software is more than the industry standard for computer printers. It is the foundation of Adobe technology, growing more rapidly today than ever before. Hundreds of output devices and thousands of programs incorporate PostScript language technology, which now supports a new generation of performance and features with **PostScript Level 2**, including high-quality fax transmission. No matter what the digital communications need, the best answer includes PostScript software from Adobe.

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multiply



[POSTSCRIPT IS THE LINGUA FRANCA OF THE COMPUTER WORLD]



systems



Adobe's OEM Customers

The following manufacturers license
PostScript or Display PostScript software:

3M Corporation
Agfa-Gevaert N.V.
Apple Computer, Inc.
Autologic, Incorporated

Birmy Graphics Corporation
Bull HN Information Systems Italia S. P. A.
Cactus
Canon, Inc.
Compaq Computer Corporation
Dainippon Screen Mfg. Co., Ltd.
Dataproducts Corporation
Digital Equipment Corporation
Digital F/X, Inc.
E.I. DuPont de Nemours and Company
Eastman Kodak Company
Electronics for Imaging, Inc.
Fujitsu Limited
GCC Technologies
Gestetner Lasers Pty. Limited
Hewlett-Packard Company
International Business Machines Corporation
Lexmark International
Linotype-Hell AG

POSTSCRIPT LEVEL 2

POSTSCRIPT FAX

DISPLAY POSTSCRIPT

POSTSCRIPT

Mannesmann Scangraphic
Matsushita Electric Industrial Co., Ltd.
Monotype Systems Ltd.
NEC Corporation
Network Computing Devices, Inc.
NeXT, Inc.
Océ Graphics USA Inc.
Oki Electric Industry Co.
Optronics, a Division of Intergraph
QMS, Inc.
Ricoh Company, Ltd.
Scitex Corporation, Ltd.
Seiko Epson Corporation
Silicon Graphics, Inc.
Sun Microsystems, Inc.
SuperMac Technology, Inc.
Synergy Computer Graphics Corporation
Tektronix, Inc.
Texas Instruments Incorporated
Varityper, Inc.
Wang Laboratories, Inc.
Xerox Corporation

As the basis of the International Standards Organization
page-description standard, the PostScript language is the
recognized leader in

digital

page description.



THE IDEA BEHIND PostScript technology is still one of the most powerful in information processing: a high-level, device-independent computer language that is graphically powerful and capable of describing a document's appearance with total precision. It remains the only completely platform-independent page-description language – a characteristic that grows in importance as networks grow larger and more diverse. It could also be called time independent: a document printed on a PostScript printer today will print on a PostScript device in the future – and even on one purchased eight years ago. ¶ EQUALLY SUITABLE FOR tomorrow's high-definition television imagery or for simple word-processed text, the PostScript language is the basis of the International Standards Organization page-description standard. For many of the largest multinational corporations, for the vast majority of newspapers and publishers, as well as for the U.S. federal government, PostScript is the preferred imaging technology. "PostScript is no longer regarded as a complicated page-description language used strictly for desktop publishing," according to a Market Metric report by International Data Corporation (IDC). "...PostScript is expanding beyond its niche to include mainstream business users as well as graphics professionals." ¶ IN ADDITION TO its acceptance across applications and operating environments, the reach of the PostScript language extends from inexpensive personal computer printers to the highest-level imagesetters that serve the printing and publishing industries. In 1985, the entry-level investment for a PostScript printer was \$7,000; in 1992, PostScript Level 2 models broke the \$1,000 barrier. Also now available are PostScript Level 2 models that deliver thermal-wax color printing and dye-sublimation color printing for less than \$4,000 and \$10,000, respectively. Before 1992, both technologies had typically cost more than twice as much. ¶ IN TERMS OF output devices shipping, Adobe estimates that demand will continue to increase, and IDC agrees. According to IDC's Market Metric report, "The U.S. market for built-in PostScript and PostScript-clone page printers is expected to grow at a compounded annual rate of 22.4 percent from 1991 to 1996 ... Adobe Systems is expected to continue its dominance over PostScript-clone vendors."

New Development Programs ¶ ADOBE MEETS THIS demand by working with original equipment manufacturers (OEMs), including the world's largest manufacturers of computers and printers. We now have licensing agreements with 45 OEMs – up from about 35 two years ago – and each has



experienced its own growth in special features, unit volume and the number of entries in its product line. About 270 PostScript printer products have reached the marketplace since 1985, with significant new entries each year.

¶ ADOBE HAS TRADITIONALLY worked closely with OEMs in development – advising them on features and specifications to meet their marketing goals, engineering controller boards that incorporate our PostScript interpreter and other desired performance characteristics, then jointly evaluating the results. ¶ IN 1992, ADOBE announced an expanded “cooperative development” program designed to meet the growing demand for PostScript printers. The program enables our OEM customers to perform key PostScript software engineering activities in-house, so they can bring more products to market efficiently, and differentiate those products with their own proprietary technologies or with the latest features developed at Adobe. At the same time, we have enlisted a number of third parties to provide some of the

POSTSCRIPT IS RECOGNIZED AS A PERMANENT

custom engineering resources once provided exclusively by Adobe. The objective of this new, shared approach is not only to increase market share, but also to help our OEM customers be as responsive as possible in a market that has increasingly shorter product life cycles. About a dozen licensed Adobe OEMs already are participating in the cooperative development program, and three companies signed third-party developer agreements with Adobe in 1992.

Market Expansion ¶ MARKET SHARE FOR PostScript laser printers continues to grow. This expansion is driven by increased demand for cross-platform and network printing support, two capabilities unique to PostScript printers. One example of the growing acceptance of PostScript printers in the PC environment is the new highly acclaimed LaserJet 4M printer from Hewlett-Packard, designed specifically for cross-platform computing environments. ¶ IN ADDITION, NEW multifunction PostScript printers became available this year. The PAGEMARQ 15 and PAGEMARQ 20 network



printers from Compaq and the Silentwriter Model 95 and 97 printers from NEC combine the quality, performance, reliability and ease-of-use of laser printers with the universal communications capability of fax machines. Costing about the same as a plain-paper fax machine, PostScript Fax printers such as these can receive standard fax documents on plain paper from any fax machine. But from a PC, Macintosh or UNIX workstation, a PostScript Fax printer acts as a remote printer, receiving documents created from any of the more than 5,000 applications that support the PostScript language and producing high-resolution, plain-paper output.

Professional Publishing ¶ IN APPLICATIONS WHERE high-resolution image-setters or high-volume printers are used, our Adobe PixelBurst™ coprocessor, released in September 1992, renders PostScript language images up to ten times faster than is possible with software-based rendering. Another product for the professional market, the PostScript Level 2 implementation

NECESSITY FOR MANAGING INFORMATION

of our Configurable PostScript Interpreter (CPSI), can run on standard, upgradable workstations. CPSI runs on a wide range of computing platforms, including Macintosh, PC and UNIX. New PostScript Level 2 imagesetters announced in the fall of 1992 are expected to ship in the spring of 1993.

The UNIX Standard ¶ A 1992 AGREEMENT between Adobe and Sun Microsystems established Adobe's Display PostScript™ system as the standard imaging model for UNIX platforms. This advanced graphics software enables users to view pages on-screen that match the output they receive from PostScript printers. Already included in workstations from Digital Equipment Corporation (DEC), IBM, Integrated Computer Solutions (ICS), Network Computing Devices (NCD), NeXT, and Silicon Graphics, in 1993, Display PostScript will be available in SunSoft's Solaris UNIX- and Intel-based operating system. For the first time, UNIX application developers can work in one broadly supported environment, and UNIX users have full access to the benefits of PostScript software.



A new Type

What happens when you want to print a document from another computer but lack the selected typefaces? Anyone who has ever been on the receiving end of text in plain, unexpected default type – or a fractured spreadsheet with half the data missing – knows the problem of a missing font. The solution: **Adobe SuperATM** software. It ensures that text in a document arrives intact and in place, in type nearly indistinguishable from the original.



technology



PERHAPS THE BEST
WAY TO
SHOW YOU WHAT
~~Adobe SuperATM~~
IS TO SHOW YOU
WHAT HAPPENS WITHO

[DOCUMENT WITHOUT SUPERATM]

**PERHAPS THE BEST WAY TO
SHOW YOU WHAT HAPPENS
TO A DOCUMENT WITH
Adobe SuperATM
IS TO SHOW YOU WHAT
HAPPENS WITHOUT IT.**

[DOCUMENT WITH SUPERATM]



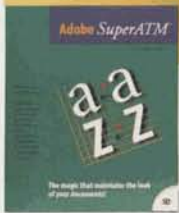
ADOBE'S TYPE 1 font format is the industry standard for digital typography. It is recognized by end users, application vendors and service bureaus as the only true cross-platform type format, and has been accepted by the International Standards Organization as the basis for its outline font standard, ISO 9541. Over the years, Type 1 has created a steady retail business and has been an integral component of our printing and document communication technologies. **BEGINNING WITH A** dozen or so typefaces less than a decade ago, offerings in the Type 1 format now encompass over 15,000

words

a

ADOBE SUPERATM
 ADOBE TYPE MANAGER
 ADOBE MULTIPLE
 MASTERS
 ADOBE ORIGINALS
 ADOBE TYPE LIBRARY
 ADOBE TYPE ON CALL

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[1.0] To Adobe, type design is not just a matter of style ... but a matter of technology. Type 1 is recognized by application vendors and service bureaus as the only truly cross-platform type format, and has been accepted by the International Standards Organization as the basis for its outline font standard.



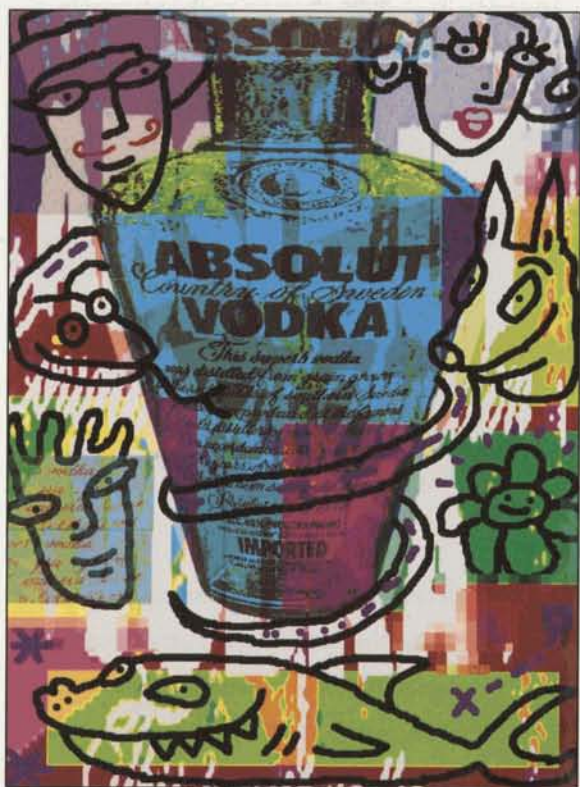
typefaces from the world's leading foundries; more than 1,700 of these are in the Adobe Type Library, including over 200 Adobe Originals™ typefaces. With numerous awards from computer magazines and design associations, the Adobe Type Library is the most honored digital type collection in the industry. Adobe markets the library in various forms: as individual families and special collections, on media such as floppy disk and CD-ROM. Non-Latin choices include 9 Japanese typefaces and, introduced in 1992, one Cyrillic family. ¶ **ALTHOUGH WE CONTINUE** to develop and acquire new type designs, our growth in this area is not just a matter of style ... but a matter of technology. In 1992, we launched the first two multiple master typefaces; the technology behind them forms the foundation of the revolutionary font-substitution feature in our SuperATM™ software, an enhanced version of Adobe Type Manager (ATM™) software that assures the metric accuracy and formatting integrity of nearly any text typeface it receives, even if the receiving computer does not have the selected font. ¶ **OUR TYPE 1 COPROCESSOR**, a single VLSI (very large scale integration) circuit that contains Adobe's font-rasterizing software, dramatically accelerates the rendering of any Type 1 font – a particularly important function when printing Japanese-language documents. It was introduced by Oki in November 1992 in three printers for the Japanese market, enabling them to process these complex characters at high speed. ¶ **WHILE TYPE 1 TECHNOLOGY** advanced, its typefaces became not only more numerous but more available. An agreement with Apple Computer, Inc. to incorporate Adobe's Type 1 font-rasterizing technology in the QuickDraw GX imaging model will give Macintosh users equal access to both Type 1 and TrueType fonts; WordPerfect Corporation licensed ATM rasterizing software for inclusion in its word processing and other applications. Both IBM and Xerox deepened their commitment to the Type 1 standard – IBM by adopting Adobe's font production software for printers and operating system software, and Xerox by licensing Adobe software to produce fonts in Type 1 format. In numerous similar agreements, Adobe type and type technology were licensed for inclusion in or bundled with applications and equipment throughout the industry. Such agreements reflect an interest in rich expression that extends beyond the Macintosh to the developing PC and UNIX environments.



Ab solute

The camera doesn't lie. But **Adobe Photoshop** software begins where the camera leaves off, turning photographs into spectacular flights of artistic imagination ... like this one for Absolut Vodka. Adobe Photoshop takes visual tools once available only in massive, dedicated systems – filters, paint and edit features, color mode conversion, image resizing and rotation, separations, and prepress – and puts them on the desktop, in the hands of art directors, designers, photographers, illustrators, and video and multimedia artists.

exp**r**ession

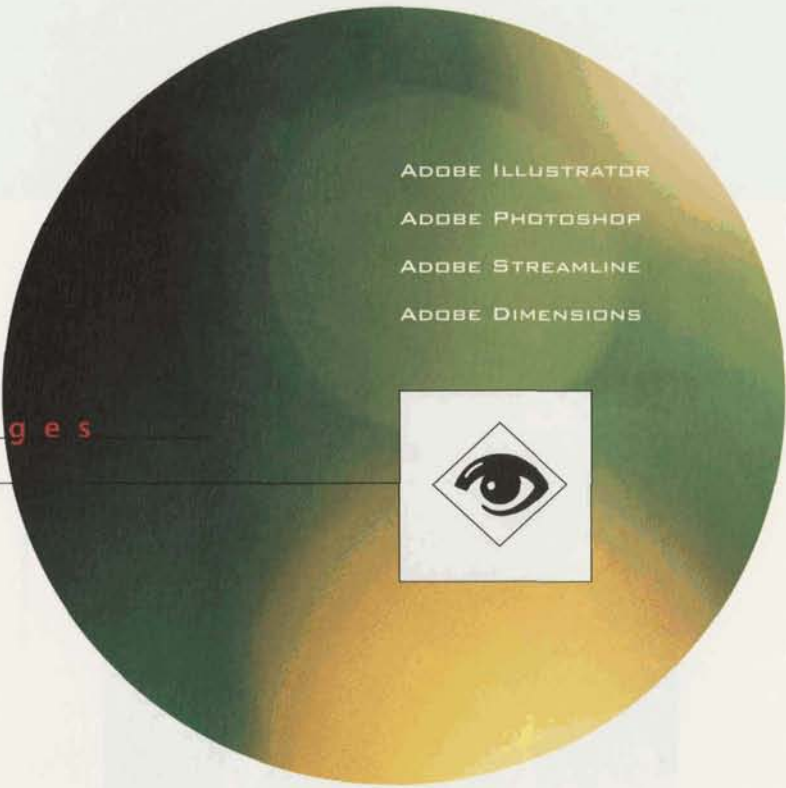


Penelope Hobbs, "Computer Generated Image for Absolut Vodka," 1991.

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ABSOLUT ALTERNATIVE.

[AD CREATED WITH ADOBE PHOTOSHOP]



DOCUMENTS ARE MORE than just words. They're charts, graphs, illustrations, photographs – elements that make words come alive. Adobe software provides the tools to create, manipulate, and combine words, pictures, and design for maximum impact in anything from a business proposal to a monthly magazine. And these tools are the overwhelming choice of a widening base of users who create documents. ¶ THROUGH THE 1980S, Macintosh hardware was recognized as the equipment best suited for designers' needs, and design programs based on Adobe's PostScript language provided a virtually limitless toolbox for meeting those needs – and going beyond them. But by the end of the decade, as Adobe reached broad penetration of the graphic design market, these programs faced a new strategic challenge: to broaden acceptance within the design community and with non-Macintosh users working in the PC and UNIX environments. ¶ THE WINDOWS PLATFORM, for example, opens graphic design and color desktop publishing possibilities in settings with IBM and IBM-compatible hardware – such as communications departments in thousands of corporations and government agencies. To address this emerging market, Adobe has rewritten or is rewriting Adobe design software in versions to run on Windows ... but with identical file formats for compatibility between



Adobe software has changed the way the design community works; applications such as Adobe Photoshop and Adobe Illustrator provide the tools to create, manipulate, and combine words, pictures, and design for maximum impact in anything from a business proposal to a monthly magazine.



Macintosh and Windows platforms. ¶ IN 1992, ADOBE Illustrator 4.0 for Windows became available to PC-compatible users. With parallel versions for Macintosh, Windows and UNIX environments, users of this full-featured drawing program can switch environments without changing the way they work, sharing files easily via diskettes and over networks. ¶ SINCE ITS INTRODUCTION in 1990, Adobe Photoshop software shipments for Macintosh users have exceeded 100,000, and the program is fast becoming a standard in itself. The newest edition of Adobe Photoshop was announced in both Windows and Macintosh versions, adding new filters and special effects to the program's capabilities. As with Adobe Illustrator software, users of Adobe Photoshop can exchange files between Macintosh and Windows environments. ¶ IN ADDITION TO this cross-platform compatibility, soon to include UNIX workstations as well, the updated version of Adobe Photoshop software incorporates a higher-performance architecture designed to take advantage of software plug-ins and accelerator boards. These can eliminate bottlenecks resulting from calculation-intensive functions – such as filters, painting and editing tools, image sizing, and rotation. More than 50 vendors already offer such products, and Adobe is fostering future development by licensing further technology to these companies.



The SHORTEST distance

The vibrant look of rock videos, like this one by U2, has shaped the visual aesthetic of a whole generation. What makes the imagery, textures and colors that turn viewers on? For a growing number of today's video artists, the answer is **Adobe Premiere** software. Before Adobe Premiere, video editors had two choices: old-fashioned linear editing, with its manual scene searches and manipulation of imagery; or digitized, non-linear editing on expensive, preconfigured systems. Adobe Premiere offers a better way: sophisticated, high-end digital video editing right on a personal computer.

between **video** and
imagination





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[2.0] Adobe Premiere

is at the forefront of two technological revolutions: digital video editing, which allows the editor to access scenes immediately in any order; and the trend away from massively cumbersome, dedicated hardware. **Adobe Premiere software streamlines the editing process, making sophisticated video editing capabilities and special effects available on the personal computer.**

action



ADOBE PREMIERE



WHEN ADOBE PREMIERE joined the family of Adobe imaging software, it already met some of the stringent criteria we set for our applications: it was the most advanced technology in a field of its own creation, it was a tool to help people express themselves through computers, and it was designed for permanence and growth. New Adobe Premiere 2.0 builds on this solid base, broadening its capabilities and making it compatible with other Adobe programs. Adobe Premiere now incorporates PostScript rasterizing software and can exchange files with Adobe Photoshop and Adobe Illustrator programs, integrating motion and sound into the spectrum of expression for Adobe users. For professionals, it also supports the time code set by the Society of Motion Picture and Television Engineers for on-line and off-line editing, and plugs into editing systems used by broadcast professionals.

¶ ADOBE PREMIERE 2.0 software for the Macintosh, which began shipping in September 1992, is at the forefront of two technological revolutions. The first revolutionary step, digital video editing, streamlined a process that hadn't changed much in decades. Before digital storage of video imagery, editing film – and later, videotape – required lining up recorded images like boxcars on a single track, then manipulating them in sequence. A made-for-TV movie might comprise more than 150,000 such boxcars. Instead of scanning thousands of frames to find the right images, Adobe Premiere allows an editor to access them immediately in any order... instantaneously applying a virtually limitless palette of visual choices and special effects. ¶ THE SECOND REVOLUTION is the trend away from the expensive, dedicated hardware for processes requiring large amounts of stored data, such as digital video. Continuing advances in data storage and data compression techniques have reduced the cost of digital video and improved the quality of the image. With Adobe Premiere software, video footage is recorded in Apple's QuickTime format (or soon in Microsoft's Video for Windows format) and stored in equipment of the user's choice, on disk or removable media. ¶ COMBINING THE BROAD range of editing options that professionals want – including graphics and special effects – with cost advantages and convenient access, Adobe Premiere is already in use for music videos and upcoming movie releases, including *The Addams Family 2* and *Jurassic Park*. Its impact, in fact, has already spread far beyond Hollywood: President Clinton's video mini-biography, *A Place Called Hope*, was edited with Adobe Premiere software.



EXPRESS

whatever

Communicate? Computers? They can't even say hello. Not unless they share the same operating system and software, which they often don't – even within networks. The **Adobe Acrobat** family of software, which begins shipping later this year, solves this communication problem. It captures type, images and formats; builds annotation and navigation capabilities into documents, and makes them transmissible between computers that have nothing in common ... except Adobe Acrobat.

wherever



PROBLEM:
MOST COMPUTERS CAN'T
EXCHANGE DOCUMENTS WITH
EACH OTHER.

Howdy.



Huh?



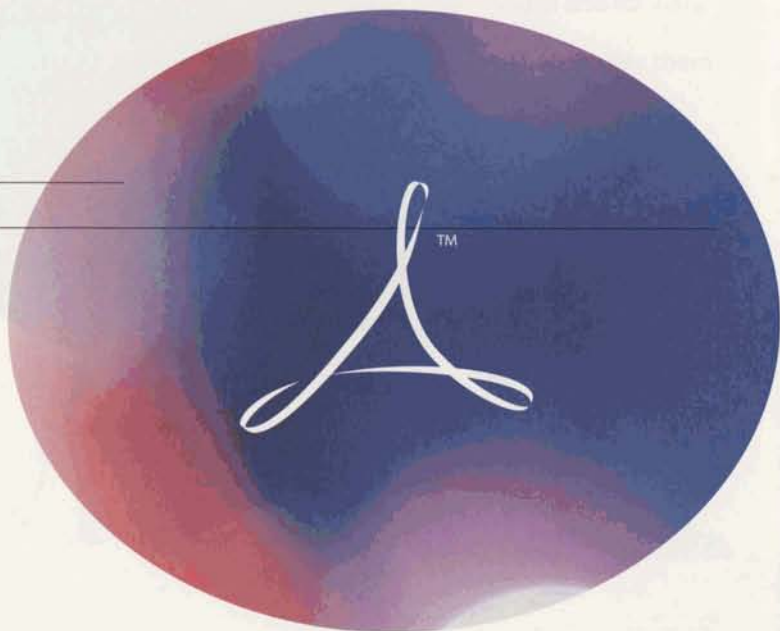
SOLUTION:
INTRODUCING ADOBE ACROBAT



The Adobe Acrobat software family is the way computers can easily exchange documents regardless of platform, typefaces, operating system or application software.

Adobe Acrobat software's Portable Document Format will be documented and published for use by software developers as an open standard and, like the PostScript language, will define new boundaries for expressiveness and versatility in digital communication.

adobe
acrobat





TYPEFACES, FORMATTING, ILLUSTRATIONS, charts, photographs ... all these are part of a document's message. The computer that cannot receive or transmit them fully cannot communicate fully. Neither can the user who must worry about losing a document's expressiveness. ¶ WITH NETWORKS MIXING hardware and software more and more freely, the Adobe Acrobat software family is designed to facilitate communication as nothing else can: the way computers can easily exchange documents regardless of platform, typefaces, operating system or application software. It frees the user to communicate ideas rather than spend time bridging systems. ¶ ONCE ADOBE ACROBAT is installed, any document produced on a computer can include an embedded description of its appearance written in Portable Document Format (PDF) ... a description that computers with the Acrobat Viewer™ can read, even if they lack the originating software or fonts. Data compression technology keeps storage requirements for the description low. Yet the information it provides is complete in every detail – whether the document has one or thousands of pages, fonts, colors or images. ¶ A DEMONSTRATION OF the Adobe Acrobat product family's capabilities earned it the “Best of Show” and “Most Significant Technology” awards in the fall 1992 Best of COMDEX competition conducted by BYTE magazine and the Interface Group. The elusive and long-sought goal of document portability only begins to suggest its potential. In fact, the Adobe Acrobat product family could hold the key to a new era of digital publishing and document communication ... from magazines with fully detailed graphics and interactive footnotes providing background information, to technical manuals distributed electronically on CD-ROM – with high-resolution, zoomable charts, navigable text providing instantaneous access to related information, and immediate updates sent electronically. ¶ WHILE 1993 IS the year of Adobe Acrobat software's scheduled entry into the marketplace, 1992 was a year of investment in the technologies that are expected to give the Adobe Acrobat product family its versatility. Potential extensions of the product line, including optical character recognition and document retrieval systems, can contribute to Adobe Acrobat software's sophistication and ease of use – making electronic transmission easier, more practical, and more valuable than exchanging hard copies. ¶ CURRENTLY BEING TESTED by major corporations, Macintosh and Windows versions of Adobe Acrobat products are expected to be released during the first half of 1993. The Portable Document Format will be documented and published for use by software developers as an open standard and, like the PostScript language, will define new boundaries for expressiveness and versatility in digital communication.

Management's Discussion and Analysis

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto.

RESULTS OF OPERATIONS

(In millions, except per share amounts)

Revenue

	1992	Change	1991	Change	1990
Revenue	\$265.9	16%	\$229.7	36%	\$168.7

In 1992, the Company's worldwide net revenue grew 16 percent over the prior year, compared with revenue growth of 36 percent in 1991 over 1990.

Revenue growth is attributable to an increase in both licensing and application products revenue. Product unit volume (as opposed to price) growth has been the principal factor in the Company's revenue growth.

Product Groups

	1992	Change	1991	Change	1990
Licensing	\$152.7	10%	\$139.5	23%	\$113.6

The increases in licensing revenue are the result of increased unit shipments of products containing the PostScript interpreter and the Display PostScript system by original equipment manufacturer (OEM) customers. While the number of units shipped by OEMs continued to grow on an annual basis, the Company's revenue growth rate has slowed from the prior years due to a decline in the rate of unit shipment growth between 1991 and 1992 coupled with reductions in average royalty price per unit in 1991 and 1992. Royalty per unit is generally calculated as a percentage of the end user list price of a printer. As printer list prices have declined, the average royalty per printer has declined resulting in slower licensing revenue growth. However, some components of licensing revenue are based on a flat dollar amount per unit and typically do not decline with list price changes. PostScript products include printers in both Roman and Japanese languages, imagesetters and workstations. The Company has seen year-to-year increases in the number of OEM customers from which it is receiving licensing revenue, demonstrating continued acceptance of PostScript software, as well as reflecting a diversification of the Company's customer base across Macintosh, IBM PC and compatibles, and multiple platform markets. No OEM customer accounted for more than 10 percent of the Company's total revenue in fiscal year 1992. Apple Computer, Inc. (Apple) accounted for approximately 11 percent of the Company's total revenue in 1991, compared to 23 percent in 1990.

	1992	Change	1991	Change	1990
Application products	\$113.2	25%	\$90.2	64%	\$55.1

The primary reason for the growth in application products revenue was increased demand for Adobe Photoshop, Adobe Illustrator, and Adobe Premiere software. The Company released a new version of Adobe Illustrator 4.0 software for the Windows environment during the second quarter of 1992 which contributed to the growth in revenue for Adobe Illustrator. During the fourth quarter, shipments of Adobe Dimensions™, Adobe Type Manager (ATM) 2.5 for Windows, a new version of Adobe Premiere 2.0, and Adobe Illustrator 3.0-J (Japanese Version) also contributed to the growth in revenue.

Costs and Expenses

Direct costs

	1992	Change	1991	Change	1990
Direct costs	\$48.5	11%	\$43.8	45%	\$30.3
Percentage of revenue	18.2%		19.1%		18.0%

Direct costs include packaging, diskettes and shipping for application products as well as royalties for typeface designs that are distributed as downloadable software packages or bundled with the PostScript interpreter. Also included in direct costs is the amortization of typeface production costs and acquired technology. As application products revenue has grown more rapidly than licensing revenue and has contributed to an increasing percentage of total revenue over the last three years, direct costs have increased in absolute dollars. Direct costs decreased as a percentage of revenue in 1992 because a licensing agreement with a major typeface foundry was renegotiated at the beginning of the year.

Research and development

	1992	Change	1991	Change	1990
Research and development	\$49.6	49%	\$33.2	64%	\$20.2
Percentage of revenue	18.7%		14.5%		12.0%

Research and development expense has increased significantly over the last three years, growing more rapidly than revenue, as the Company has invested in new technologies and new product development. Much of this increase is attributable to personnel additions. Approximately 55 percent of the 186 new employees hired in 1992 are involved in research and development efforts. Many of these are engineers working with OEM customers to design and implement PostScript Level 2 devices, and to enhance the Company's application products, especially for the Windows environment. The Company has also made a significant investment in its Adobe Acrobat technologies that will allow the exchange of documents across computer platforms. Products incorporating this technology have been demonstrated to potential users and the Company expects to release them during the first half of 1993. The Company believes that investment in research and development is necessary to remain competitive and expects research and development expenses to increase as a result of planned additions to its engineering staff. The increases in research and development expense planned for 1993, however, are expected to be at a lower rate than experienced in 1992.

Write-off of in-process research and development

	1992	Change	1991	Change	1990
Write-off of in-process research and development	\$6.3	-	-	-	-
Percentage of revenue	2.4%		-		-

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

Sales, marketing and customer support

	1992	Change	1991	Change	1990
Sales, marketing and customer support	\$70.8	26%	\$56.4	38%	\$40.8
Percentage of revenue	26.6%		24.6%		24.2%

The Company has expanded its market presence in Europe and Japan, adding staff to its sales offices and increasing promotional activity worldwide. The increased expense also reflects the addition of personnel to accommodate the growth in sales from existing products, as well as to support the introduction of upgrades of existing products and the release of new products. As the installed base of customers has grown, the Company has added personnel to accommodate the increasing demand for customer support. The Company expects spending for sales, marketing and customer support to continue to increase.

General and administrative

	1992	Change	1991	Change	1990
General and administrative	\$22.3	21%	\$18.4	21%	\$15.2
Percentage of revenue	8.4%		8.0%		9.0%

General and administrative expenses increased from 8.0 percent to 8.4 percent of revenue from fiscal year 1991 to fiscal year 1992. Much of the growth is attributable to personnel additions. Other factors contributing to increased spending include legal expenses, investment in management information systems, expansion of public relations programs, and accounting support for the European and Japanese offices.

Interest income and loss on real estate partnership

	1992	Change	1991	Change	1990
Interest income	\$7.1	25%	\$5.7	39%	\$4.1
Percentage of revenue	2.7%		2.5%		2.4%
Loss on real estate partnership	(\$6.0)	-	-	-	-
Percentage of revenue	-2.3%		-		-

Interest income grew by \$1.4 million in 1992 from 1991 and by \$1.6 million in 1991 over 1990 as the Company's cash balances and short-term investments grew year-to-year, offset somewhat by declining interest rates. The Company's cash balances and short-term investments have increased each year due to profitable operations and modest expenditures for capital outlays and other investments. The Company incurred a \$6 million loss on a real estate partnership in the fourth quarter of fiscal year 1992, as it withdrew from this partnership, due to complications that affected the developer's ability to finance the project and to meet specific development timetables.

Income tax expense

	1992	Change	1991	Change	1990
Provision for income taxes	\$25.9	-19%	\$32.0	22%	\$26.2
Percentage of net revenue	9.7%		13.9%		15.5%
Effective tax rate	37.3%		38.2%		39.6%

The Company's effective tax rate was lower in 1992 compared with preceding years, primarily because the Company was able to take advantage of \$3.3 million in research and development credits in fiscal year 1992. The research and development credit has been cancelled as of June 30, 1992 and it is unclear whether it will be renewed. Nonrenewal would adversely impact the Company's 1993 tax rate which is expected to exceed 38 percent.

In February 1992, the Financial Accounting Standards Board issued Statement No. 109, "Accounting for Income Taxes," which the Company adopted in the first quarter of fiscal year 1992. The adoption of this statement did not have a material impact on the Company's consolidated financial statements.

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

Net income and net income per share

	1992	Change	1991	Change	1990
Net income	\$43.6	-16%	\$51.6	29%	\$40.1
Percentage of revenue	16.4%		22.5%		23.8%
Net income per share	\$1.87	-17%	\$2.25	23%	\$1.83
Weighted shares	23,325	2%	22,941	5%	21,923

(In thousands)

Net income for fiscal year 1992 decreased by 16 percent, including the \$6.3 million charge for the write-off of acquired in-process research and development and the \$6.0 million loss on the investment in a real estate partnership. Earnings per share were \$1.87, a 17 percent decrease from fiscal year 1991. These one-time charges resulted in a reduction in earnings per share of \$.33.

Factors that may affect future results of operations

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

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

The Company's ability to develop and market products that successfully adapt to current market needs may also have an impact on the results of operations. The Company has announced that it intends to release several new products and upgrades of existing products in fiscal year 1993. A portion of the Company's future revenues will come from these products. Delays in such introductions could have an adverse effect on the Company's revenue, earnings or stock price. The Company cannot determine the ultimate effect that these new products or upgrades will have on its sales or results of operations.

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

In December 1990, the Financial Accounting Standards Board adopted Statement No. 106, "Employer's Accounting for Post Retirement Benefits other than Pensions," which requires the accrual method of accounting for post retirement health care benefits beginning no later than fiscal 1994. The Company does not provide any post retirement health care benefits and does not expect this new standard to impact its financial position.

FINANCIAL CONDITION

(In millions)

Cash and short-term investments

	1992	1991	1990
Cash and short-term investments	\$159.8	\$116.3	\$69.7
Working capital	\$167.6	\$124.7	\$71.8

Cash, cash equivalents, and short-term investments totaled \$159.8 million at the end of fiscal year 1992, compared to \$116.3 million in fiscal year 1991, representing 57 percent and 53 percent of total assets, respectively. Cash equivalents consist of highly liquid money market instruments. Short-term investments are carried at the lower of cost or market value and consist principally of municipal bonds, commercial paper, money market preferred stocks, asset-backed securities and treasury notes.

The Company has no long-term debt. Shareholders' equity as of November 27, 1992 was \$224.6 million, compared to \$182.8 million as of November 29, 1991.

Working capital grew to \$167.6 million as of November 27, 1992, compared to \$124.7 million as of November 29, 1991. Cash flow provided by operations during fiscal year 1992 was \$80.4 million. Expenditures for property and equipment totaled \$11.9 million and investment in typeface production was \$5.8 million.

Net cash used for financing activities during fiscal year 1992 was \$9.7 million: \$10.3 million was provided by proceeds from issuance of common stock, \$7.2 million was used to pay cash dividends, and \$12.7 million was used to repurchase common stock. Repurchases of the Company's common stock will continue in fiscal 1993 in order to provide shares for issuance under its stock plans.

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

Consolidated Balance Sheets

(Dollars in thousands)

	Nov. 27 1992	Nov. 29 1991
Assets		
Current assets:		
Cash and cash equivalents	\$ 47,204	\$ 30,305
Short-term investments	112,636	86,031
Receivables	48,866	37,900
Inventory	4,757	3,931
Other current assets	3,623	3,157
Deferred income taxes	7,270	275
<i>Total current assets</i>	<u>224,356</u>	<u>161,599</u>
Property and equipment	20,734	17,636
Typeface production costs	9,149	7,149
Other assets	25,578	34,811
Deferred income taxes	1,523	-
	<u>\$ 281,340</u>	<u>\$ 221,195</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accrued expenses	\$ 29,699	\$ 23,005
Income taxes payable	17,034	5,117
Deferred revenue	5,444	2,662
Trade and other payables	4,576	6,144
<i>Total current liabilities</i>	<u>56,753</u>	<u>36,928</u>
Deferred income taxes	-	1,517
Shareholders' equity:		
Preferred stock, no par value; 2,000,000 shares authorized; none issued	-	-
Common stock, no par value; 100,000,000 shares authorized; 22,224,553 and 22,133,069 shares issued and outstanding as of November 27, 1992, and November 29, 1991, respectively	49,922	44,487
Retained earnings	174,665	138,263
<i>Total shareholders' equity</i>	<u>224,587</u>	<u>182,750</u>
	<u>\$ 281,340</u>	<u>\$ 221,195</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

(In thousands, except per share data)

Years Ended	Nov. 27 1992	Nov. 29 1991	Nov. 30 1990
Revenue			
Licensing	\$ 152,701	\$ 139,479	\$ 113,607
Application products	113,230	90,174	55,123
<i>Total revenue</i>	265,931	229,653	168,730
Costs and Expenses			
Direct costs	48,450	43,758	30,307
Research and development	49,609	33,223	20,190
Sales, marketing and customer support	70,790	56,406	40,848
General and administrative	22,348	18,373	15,210
Write-off of in-process research and development	6,325	-	-
<i>Total costs and expenses</i>	197,522	151,760	106,555
Operating income	68,409	77,893	62,175
Interest income	7,121	5,705	4,116
Loss on real estate partnership	(6,000)	-	-
Income before income taxes	69,530	83,598	66,291
Income tax expense	25,920	31,991	26,221
<i>Net income</i>	\$ 43,610	\$ 51,607	\$ 40,070
<i>Net income per share</i>	\$ 1.87	\$ 2.25	\$ 1.83
<i>Shares used in computing net income per share</i>	23,325	22,941	21,923

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(Dollars in thousands)

	Common Stock		Retained Earnings	Total Shareholders' Equity
	Shares	Amount		
<i>Balances as of December 1, 1989</i>	20,103,835	\$ 232	\$ 58,593	\$ 58,825
Issuance of Common Stock under Stock Option Plan	725,319	5,304	-	5,304
Issuance of Common Stock under Employee Stock Purchase Plan	107,920	1,858	-	1,858
Issuance of Common Stock under Restricted Stock Plan	135,750	-	-	-
Tax benefit from employee stock plans	-	6,588	-	6,588
Restricted stock compensation expense	-	1,274	-	1,274
Dividends declared at \$.24 per share	-	-	(4,991)	(4,991)
Repurchase of Common Stock	(116,127)	(1,128)	-	(1,128)
Net income	-	-	40,070	40,070
<i>Balances as of November 30, 1990</i>	20,956,697	14,128	93,672	107,800
Issuance of Common Stock under Stock Option Plan	1,108,875	12,413	-	12,413
Issuance of Common Stock under Employee Stock Purchase Plan	152,019	2,876	-	2,876
Issuance of Common Stock under Restricted Stock Plan	11,220	-	-	-
Tax benefit from employee stock plans	-	15,910	-	15,910
Restricted stock compensation expense	-	2,184	-	2,184
Dividends declared at \$.32 per share	-	-	(7,016)	(7,016)
Repurchase of Common Stock	(95,742)	(3,024)	-	(3,024)
Net income	-	-	51,607	51,607
<i>Balances as of November 29, 1991</i>	22,133,069	44,487	138,263	182,750
Issuance of Common Stock under Stock Option Plan	322,299	5,727	-	5,727
Issuance of Common Stock under Employee Stock Purchase Plan	164,040	4,540	-	4,540
Issuance of Common Stock under Restricted Stock Plan	34,180	-	-	-
Tax benefit from employee stock plans	-	5,611	-	5,611
Restricted stock compensation expense	-	2,278	-	2,278
Dividends declared at \$.32 per share	-	-	(7,208)	(7,208)
Repurchase of Common Stock	(429,035)	(12,721)	-	(12,721)
Net income	-	-	43,610	43,610
<i>Balances as of November 27, 1992</i>	22,224,553	\$ 49,922	\$ 174,665	\$ 224,587

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands)

Years Ended	Nov. 27 1992	Nov. 29 1991	Nov. 30 1990
Cash Flows from Operating Activities			
Net income	\$ 43,610	\$ 51,607	\$ 40,070
Adjustments to reconcile net income to net cash provided by operating activities:			
Restricted stock compensation expense	2,278	2,184	1,274
Depreciation and amortization	19,001	15,244	11,125
Deferred income taxes	(10,035)	1,691	914
Write-off of in-process research and development	6,325	-	-
Loss on real estate partnership	6,000	-	-
Changes in operating assets and liabilities:			
Receivables	(10,966)	(6,561)	(7,320)
Inventory	(826)	64	(2,488)
Other current assets	(466)	(167)	(2,052)
Accrued expenses	6,694	1,229	3,978
Income taxes payable	17,528	15,186	6,575
Deferred revenue	2,782	(2,548)	(2,458)
Trade and other payables	(1,568)	1,205	(888)
<i>Net cash provided by operating activities</i>	80,357	79,134	48,730
Cash Flows from Investing Activities			
Short-term investments, net	(26,605)	(35,848)	(13,591)
Property and equipment	(11,891)	(12,212)	(7,402)
Typeface production costs	(5,767)	(4,973)	(3,252)
Other assets	(2,708)	(21,045)	(5,385)
Acquisitions, net of cash acquired	(6,825)	-	(13,987)
<i>Net cash used for investing activities</i>	(53,796)	(74,078)	(43,617)
Cash Flows from Financing Activities			
Proceeds from issuance of Common Stock	10,267	15,289	7,162
Repurchase of Common Stock	(12,721)	(3,024)	(1,128)
Dividends paid	(7,208)	(6,497)	(4,740)
<i>Net cash provided by (used for) financing activities</i>	(9,662)	5,768	1,294
Net increase in cash and cash equivalents	16,899	10,824	6,407
Cash and cash equivalents at beginning of year	30,305	19,481	13,074
<i>Cash and cash equivalents at end of year</i>	\$ 47,204	\$ 30,305	\$ 19,481
Supplemental Disclosures			
Cash paid during the year for income taxes	\$ 13,472	\$ 15,114	\$ 20,095
Non-cash investing and financing activities:			
Tax benefit from employee stock plans	\$ 5,611	\$ 15,910	\$ 6,588
Dividends declared but not paid	1,780	1,780	1,261
Notes payable relating to acquisitions	-	-	1,817
Deferred taxes relating to acquisitions	-	-	1,723

See accompanying notes to consolidated financial statements.

November 27, 1992, November 29, 1991, and November 30, 1990.

Note 1.

SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Founded in 1982, Adobe Systems Incorporated develops, markets and supports computer software products and technologies that enable users to create, display, print and communicate all forms of electronic documents. The accompanying consolidated financial statements include those of Adobe and its wholly owned subsidiaries, after elimination of all significant intercompany accounts and transactions. Realized and unrealized foreign exchange gains and losses, which have not been material, are included in results of operations.

Cash Equivalents

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

Short-Term Investments

Short-term investments are carried at the lower of cost or market value. As of November 27, 1992, short-term investments consist principally of municipal bonds, commercial paper, money market preferred stocks, asset-backed securities, and treasury notes.

Inventory

Inventory is stated at the lower of cost (first-in, first-out basis) or market (net realizable value).

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is calculated on the straight-line method over the estimated useful lives of the respective assets, generally three to eight years. Leasehold improvements are amortized over the lesser of the lease term or the estimated useful lives of the related assets, generally five to nine years.

Software Development Costs

Research and development costs are charged to expense when incurred. Costs incurred in the research and development of new software products and enhancements to existing software products are also expensed as incurred until the technological feasibility of the product has been established. After technological feasibility has been established, any additional costs would be capitalizable in accordance with Statement of Financial Accounting Standards (SFAS) No. 86. The amount of capitalization costs to date has not been significant for any development costs other than those associated with typeface production. Typeface production costs, less \$12.5 and \$8.8 million accumulated amortization in 1992 and 1991, respectively, comprise direct and indirect costs associated with the production of typefaces to be used with the PostScript interpreter, or to be distributed in shrink-wrapped packages to end users through retail channel or directly from the Company.

Other Assets

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

Revenue Recognition

Licensing revenue is recognized when the Company's OEMs ship their products incorporating Adobe's software to their end-user customers. Application products revenue is recognized upon shipment.

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

Direct Costs

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

Income Taxes

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. Under Statement 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Effective December 1, 1991, the Company adopted SFAS No. 109. The effect of the change in the method of accounting was not material to the consolidated financial statements. However, certain reclassifications have been made to the tax accounts to conform to SFAS No. 109.

Concentration of Credit Risk

The Company's investment portfolio is diversified and consists principally of investment grade securities. Credit risk in receivables is limited to original equipment manufacturers, and dealers and distributors of hardware and software products to the retail market. While no customer represented in excess of 10 percent of sales in 1992, one OEM represented 11 percent and 23 percent of sales in 1991 and 1990.

Net Income Per Common Share

Net income per common share is based upon weighted average common and dilutive equivalent shares outstanding. Dilutive common equivalent shares are determined using the treasury stock method. Fully diluted earnings per share for the years ended November 27, 1992, November 29, 1991, and November 30, 1990, were not materially different than primary earnings per share.

Reclassifications

Certain reclassifications were made to the 1991 and 1990 consolidated financial statements in order to conform to the 1992 presentation.

Note 2.

RECEIVABLES

(In thousands)

Royalties
Product sales
Interest and other receivables

Less allowance for doubtful accounts

	1992		1991
Royalties	\$ 34,262	\$	23,816
Product sales	13,528		12,061
Interest and other receivables	1,766		2,510
	49,556		38,387
Less allowance for doubtful accounts	690		487
	\$ 48,866	\$	37,900

Note 3.

PROPERTY AND EQUIPMENT

(In thousands)

Computers and peripherals
Furniture and fixtures
Leasehold improvements

Less accumulated depreciation and amortization

	1992		1991
Computers and peripherals	\$ 33,124	\$	24,701
Furniture and fixtures	13,105		10,107
Leasehold improvements	2,628		2,158
	48,857		36,966
Less accumulated depreciation and amortization	28,123		19,330
	\$ 20,734	\$	17,636

Note 4.

OTHER ASSETS

During 1992, the Company acquired OCR Systems Incorporated and Nonlinear Technologies, Incorporated for an aggregate purchase price of \$6.8 million, of which \$6.3 million was allocated to research and development in-process. This amount was expensed at the time of these acquisitions. The Company plans to integrate the acquired technologies into future products. Also in 1992, the Company entered into licensing agreements with several companies to assist in the upgrading of existing products and to develop new products.

During 1991, the Company licensed the rights to a patent covering color imaging technology for \$4 million, and signed an agreement with H. Berthold AG, which grants the Company rights to distribute the Berthold collection of typefaces in the Type 1 format for \$5.7 million.

During 1991, the Company also invested \$6 million in a real estate partnership to acquire land and develop office space for its own use. The Company was a limited partner and accounted for its investment under the equity method. During 1992, the Company chose to abandon its efforts to pursue the development of land and buildings under this partnership. The Company has entered into an agreement with the general partner to dissolve the partnership without recourse to the Company. Accordingly, the investment of \$6 million was written off in the fourth quarter of 1992.

Note 4. continued

(In thousands)

	1992	1991
Acquired technology and goodwill	\$ 17,670	\$ 17,760
Licensing agreements	20,247	17,376
Investment in real estate partnership	-	6,000
Other	3,528	3,100
	41,445	44,236
Less accumulated amortization	15,867	9,425
	\$ 25,578	\$ 34,811

Note 5.

ACCRUED EXPENSES

(In thousands)

	1992	1991
Rent	\$ 1,671	\$ 1,928
Royalties	8,109	7,767
Accrued compensation and benefits	10,617	6,870
Marketing development funds	3,453	2,637
Other	5,849	3,803
	\$ 29,699	\$ 23,005

Note 6.

INCOME TAXES

(In thousands)

	1992	1991	1990
Current:			
U.S. Federal	\$ 17,402	\$ 9,041	\$ 15,092
Foreign	5,232	3,772	851
State and local	5,710	2,215	4,139
Total current	28,344	15,028	20,082
Deferred:			
U.S. Federal	(6,566)	1,053	(271)
State and local	(1,469)	-	(178)
Total deferred	(8,035)	1,053	(449)
Charge in lieu of taxes attributable to employee stock plans	5,611	15,910	6,588
	\$ 25,920	\$ 31,991	\$ 26,221

The total income tax expense differs from the expected tax expense (computed by multiplying the U.S. income statutory rate of 34 percent to income before taxes) as a result of the following:

	1992	1991	1990
Computed "expected" tax expense	\$ 23,640	\$ 28,423	\$ 22,539
State tax expense, net of federal benefit	3,632	3,904	3,624
Research credits	(3,344)	-	-
Other	1,992	(336)	58
	\$ 25,920	\$ 31,991	\$ 26,221

The tax effects of the temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of November 27, 1992 are presented below:

(In thousands)

	1992
Deferred tax assets:	
Acquired technology	\$ 2,301
Reserves	1,979
Deferred revenue	2,867
Inventory capitalized costs	423
Accrued vacation	759
Depreciation	947
Restricted stock compensation	310
Investment in partnership	2,481
Acquired net operating loss carryover	92
State taxes	1,302
Total gross deferred tax asset	13,461
Deferred tax asset valuation allowance	0
Total deferred tax asset	13,461
Deferred tax liabilities:	
Basis difference of assets from acquisition	(579)
Font costs	(3,586)
Capital leases	(503)
Total deferred tax liability	(4,668)
Net deferred tax asset	\$ 8,793

Deferred income tax expense (benefit) represents the effect of changes in the amounts of temporary differences. The sources of the temporary differences for 1991 and 1990 arise principally from deferred revenue, typeface production costs, capitalized costs, investment losses not currently deductible and certain allowances and reserves.

Note 7.

CAPITAL STOCK

The Company has authorized 2,000,000 shares of Preferred Stock and 100,000,000 shares of Common Stock.

Stock Plans

The Company adopted an Employee Stock Purchase Plan on January 1, 1988. Under the terms of the plan, eligible employee participants purchase shares of Common Stock semiannually at the lower of 85 percent of the market price on either the purchase date or the offering date.

As of November 27, 1992, the Company had reserved 8,000,000 shares of Common Stock for issuance under its 1984 Stock Option Plan. This plan provides for the granting of stock options to employees and officers at the fair market value of the Company's Common Stock at the grant date. Options generally vest over three years: 25 percent in each of the first two years and 50 percent in the third year. All options have a five or ten-year term.

	Options Available for Grant	Options	Price per Share
Balances as of November 30, 1990	1,677,166	3,032,716	\$.08-40.00
Increase in shares reserved	1,000,000	-	-
Options granted	(874,130)	874,130	26.00-54.75
Options exercised	-	(1,097,625)	.08-24.13
Options cancelled	66,837	(66,837)	1.15-54.50
Balances as of November 29, 1991	1,869,873	2,742,384	.08-54.75
Options granted	(1,348,606)	1,348,606	26.88-67.75
Options exercised	-	(319,799)	1.15-47.63
Options cancelled	716,070	(716,070)	1.15-67.75
Balances as of November 27, 1992 (1,418,172 options exercisable)	1,237,337	3,055,121	\$.08-67.75

Restricted Stock Plans

In 1987, the Company adopted the Restricted Stock Option Plan, which provides for the granting of nonqualified stock options to nonemployee directors and consultants. Option grants are limited to 5,000 shares per person in each fiscal year and are immediately exercisable within a ten-year term. Vesting is identical to the 1984 Stock Option Plan, as described above. As of November 27, 1992, 70,000 shares were outstanding under this plan, of which 27,500 are vested.

In 1989, the Company adopted a Restricted Stock Plan, which provides for granting of restricted stock to officers and key employees. Shares issued under this plan vest annually over three years, but are considered outstanding at the time of grant, as the shareholders are entitled to dividends and voting rights. Grants to officers and key employees totaled 310,150 shares as of November 27, 1992, of which 86,957 were unvested. Compensation expense associated with this plan was \$2.3, \$2.2 and \$1.3 million in 1992, 1991 and 1990, respectively.

Shareholder Rights Plan

On July 12, 1990, the Company adopted a shareholder rights plan. The plan is intended to protect shareholders from unfair or coercive takeover practices. In accordance with this plan, the Board of Directors declared a dividend distribution of one Common Stock purchase right on each outstanding share of its Common Stock held as of July 24, 1990. Each right entitles the registered holder to purchase from the Company a share of Common Stock at \$230. The rights will not be exercisable until certain events occur. The rights are redeemable by the Company and expire July 24, 2000.

Note 8.

SUPPLEMENTARY INCOME STATEMENT INFORMATION

These items are included in costs and expenses in the accompanying consolidated statements of income.

(In thousands)

	1992	1991	1990
Royalties	\$ 21,916	\$ 22,081	\$ 16,898
Amortization of intangibles	10,208	8,564	6,270
Advertising	8,023	5,866	4,433

Note 9.

COMMITMENTS AND CONTINGENCIES

The Company has operating leases for the corporate headquarters, field sales offices and certain office equipment that expire at various dates through 2001. Rent expense for these leases aggregated \$7.2, \$5.8 and \$5.0 million during the years ended November 27, 1992, November 29, 1991, and November 30, 1990, respectively. As of November 27, 1992, future minimum lease payments under noncancellable operating leases are shown below:

(In thousands)

	1993	\$ 7,321
	1994	7,200
	1995	7,120
	1996	4,979
	1997	350
	1998 and beyond	251
Total minimum lease payments		\$ 27,221

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

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Adobe Systems Incorporated and subsidiaries as of November 27, 1992, and November 29, 1991, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended November 27, 1992. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Adobe Systems Incorporated and subsidiaries as of November 27, 1992, and November 29, 1991, and the results of their operations and their cash flows for each of the years in the three-year period ended November 27, 1992, in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK
San Jose, California
December 15, 1992

Quarterly Results of Operations (Unaudited)

(In thousands, except per share data)

	1992				Year Ended Nov. 27
	Feb. 28	May 29	Aug. 28	Quarter Ended Nov. 27	
Revenue	\$ 62,562	\$ 69,614	\$ 63,046	\$ 70,709	\$ 265,931
Income before income taxes	21,247	24,247	10,645	13,391	69,530
Net income	13,317	15,203	6,675	8,415	43,610
Net income per share	\$.57	\$.65	\$.29	\$.37	\$ 1.87
Shares used in per share calculation	23,513	23,410	23,360	22,966	23,325
Common Stock price per share:					
High	\$ 68 $\frac{1}{2}$	\$ 58 $\frac{3}{4}$	\$ 49 $\frac{1}{4}$	\$ 38 $\frac{1}{2}$	\$ 68 $\frac{1}{2}$
Low	47 $\frac{1}{4}$	37 $\frac{1}{2}$	31 $\frac{1}{4}$	25 $\frac{1}{4}$	25 $\frac{1}{4}$

	1991				Year Ended Nov. 29
	Mar. 1	May 31	Aug. 30	Quarter Ended Nov. 29	
Revenue	\$ 52,600	\$ 57,083	\$ 57,230	\$ 62,740	\$ 229,653
Income before income taxes	20,533	21,918	20,285	20,862	83,598
Net income	12,424	13,260	12,780	13,143	51,607
Net income per share	\$.55	\$.58	\$.55	\$.57	\$ 2.25
Shares used in per share calculation	22,446	22,946	23,097	23,209	22,941
Common Stock price per share:					
High	\$ 48 $\frac{3}{4}$	\$ 63	\$ 60	\$ 57 $\frac{3}{4}$	\$ 63
Low	25 $\frac{1}{4}$	44 $\frac{3}{4}$	43 $\frac{1}{4}$	42 $\frac{1}{4}$	25 $\frac{1}{4}$

	1990				Year Ended Nov. 30
	Mar. 2	Jun. 1	Aug. 31	Quarter Ended Nov. 30	
Revenue	\$ 37,181	\$ 35,347	\$ 42,832	\$ 53,370	\$ 168,730
Income before income taxes	17,192	12,986	16,399	19,714	66,291
Net income	10,142	7,883	10,003	12,042	40,070
Net income per share	\$.48	\$.36	\$.45	\$.55	\$ 1.83
Shares used in per share calculation	21,272	22,125	22,061	21,878	21,923
Common Stock price per share:					
High	\$ 30 $\frac{3}{4}$	\$ 50 $\frac{3}{4}$	\$ 39 $\frac{3}{4}$	\$ 30	\$ 50 $\frac{3}{4}$
Low	16 $\frac{1}{4}$	30 $\frac{1}{4}$	23 $\frac{1}{4}$	17	16 $\frac{1}{4}$

The Company's stock is traded on the NASDAQ National Market System under the symbol ADBE. On January 29, 1993, there were 1,047 holders of record of the Company's Common Stock.

Board of Directors

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

Charles M. Geschke
*President and
Chief Operating Officer*

William R. Hambrecht
Director

William J. Spencer
Director

Robert Sedgewick
Director

Delbert W. Yocam
Director

Transfer Agent /Registrar

Chemical Bank
San Francisco, California

Stock Exchange Listing

NASDAQ
National Market System
Ticker Symbol ADBE

Independent Auditors

KPMG Peat Marwick
San Jose, California

Form 10-K

A copy of the Company's Annual Report to the Securities and Exchange Commission (Form 10-K) is available free of charge by writing or calling: Investor Relations Department
Adobe Systems Incorporated
1585 Charleston Road
P.O. Box 7900
Mountain View, California
94039-7900
415-961-4400

Annual Meeting

The Company's Annual Meeting of Shareholders will be held at 1:30 p.m. on Thursday, April 22, 1993, at the Garden Court Hotel, Palo Alto, California.

EXECUTIVE OFFICERS



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



Charles M. Geschke
*President and
Chief Operating Officer*



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



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



Colleen M. Pouliot
*Vice President, General Counsel
and Secretary*



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



R. Daniel Putman
*Senior Vice President,
New Product Development*



William M. Spaller
*Vice President, Product
Marketing and Development*

C O L O P H O N

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