



Adobe Systems Incorporated Letter to stockholders 2004

*In short, 2004 was a phenomenal year for the entire Adobe community.*

## What's the secret to better communication?

For millions of people and thousands of businesses around the world, the not-so-secret answer to that question is Adobe. Not surprising, perhaps, from a company whose mission is precisely that: to help people and businesses communicate better. In 2004, this mission drove all of our efforts as we successfully executed on our strategy and delivered better-than-ever results.

Becoming a platform company is the centerpiece of that strategy. And 2004 was the year that our transformation from product to platform company gained significant traction in the marketplace, with tangible benefits realized not only by Adobe but by our customers, partners, and stockholders, as well.

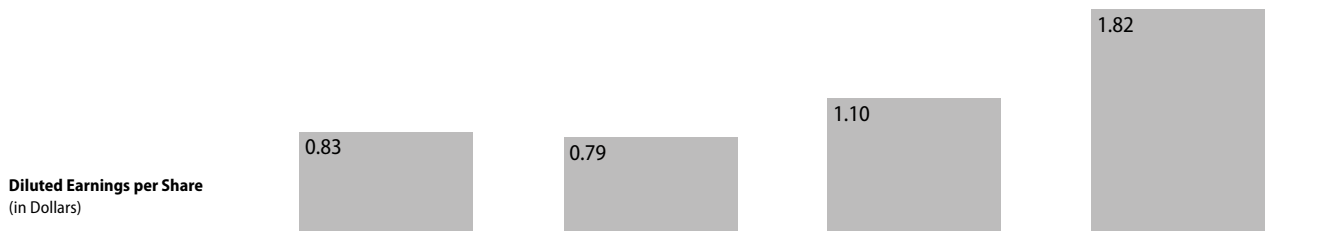
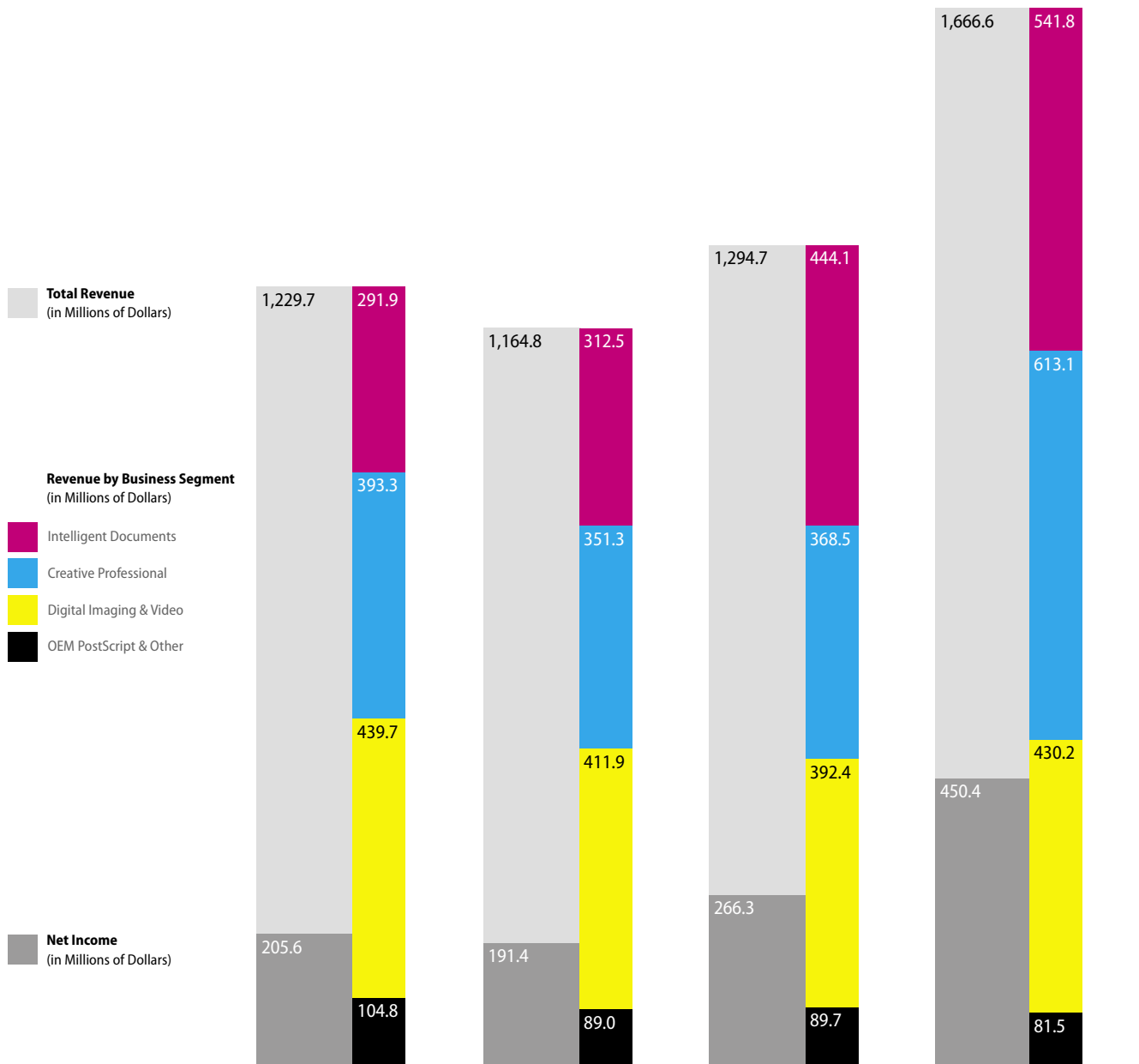
Leveraging the vast information-accessing capabilities of our ubiquitous Adobe® Reader® software, our core platforms—for design, digital imaging and video, and enterprise applications—serve as launching pads for the next generation of communication-enhancing capabilities that our customers rely on and use to their advantage.

In 2004, for example, legions of creative professionals—artists, graphic designers, photographers, and other creative types—were able to better communicate their ideas using our revolutionary Adobe Creative Suite platform. Digital photographers and videographers, whether family historians or corporate image makers, were able to better share experiences and communicate memorable moments using Adobe's evolving digital imaging and video platforms. And more enterprises were able to use and share information efficiently, reliably, and securely with the help of our innovative Adobe Intelligent Document Platform.

Adobe's partners also contributed to—and gained from—our platform strategy in 2004. A global ecosystem of software vendors, developers, service providers, and other companies provided complementary technologies, solutions, and services that further helped our mutual customers communicate their vision, share their ideas, and exchange information more easily and cost-effectively.

Our proven ability to win in the marketplace and deliver consistent results made 2004 an excellent year for Adobe's stockholders, as well.

In short, 2004 was a phenomenal year for the entire Adobe community, with much good news to communicate.



2001

2002

2003

2004

*In fiscal year 2004, Adobe once again executed on its strategy with remarkable operational efficiency.*

## Consistently strong financial performance

Surpassing our record performance in 2003, Adobe met or exceeded Wall Street expectations in every quarter of fiscal 2004, delivering double-digit growth for the second year in a row. Annual revenue grew to a record \$1.667 billion, a 29 percent increase from fiscal 2003 revenue. Our diluted earnings per share grew from \$1.10 to \$1.82, and our operating profit margin increased to 35.5 percent in fiscal 2004. Reported net income reached \$450.4 million, a 69 percent increase from fiscal 2003. Adobe's Creative Professional revenue was \$613.1 million, a 66 percent increase year over year. Digital Imaging and Video revenue was \$430.2 million, a 10 percent increase from the prior year. Revenue from our Intelligent Documents business unit grew to \$541.8 million, a 22 percent increase year over year. Finally, revenue from our OEM PostScript® and Other segment was \$81.5 million, a 9 percent decrease from the prior year.

In fiscal year 2004, Adobe once again executed on its strategy with remarkable operational efficiency. We have a healthy balance sheet, with a cash position of approximately \$1.3 billion, and no long-term debt. Results from our operations generated strong cash flow in 2004. We used this financial strength to invest in our future while also returning value to our stockholders through our stock repurchase program and our quarterly dividend. We've streamlined our business processes for transparency and accountability, and our centralized information systems provide financial information that enables us to assess our business performance in real time around the world.

As always, we are committed to conducting business with the utmost integrity and to meeting the highest standards of corporate governance.

## Our platforms are helping customers achieve their goals

Our platform strategy, detailed in our 2003 report, is resonating with customers, who in 2004 increasingly relied on innovations from Adobe to deliver innovations in their own fields.

### **Creative professionals became more creative and efficient**

The reception for the revolutionary Adobe Creative Suite platform, which we launched in the fourth quarter of 2003, exceeded our expectations in 2004, in large part because it exceeded the expectations of creative professionals around the globe. Integrating the latest versions of creative professionals' favorite tools—Adobe Photoshop® cs, Adobe Illustrator® cs, Adobe InDesign® cs, Adobe Acrobat® 6.0, and Adobe GoLive® cs plus Version Cue™, an innovative file manager—the Adobe Creative Suite enabled creative professionals to significantly improve collaboration and workflow efficiencies while better communicating their creative vision.

Publishing companies and advertising agencies in particular embraced Adobe InDesign cs software, which won industry accolades and helped Adobe Creative Suite become the publishing platform of choice for major publishers such as Hearst Magazines and Meredith Corporation.

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### **Photographers and filmmakers gained greater capabilities**

In 2004, the unparalleled Adobe Photoshop software family helped both professionals and hobbyists blaze new trails in digital photography around the world.

Our segmentation strategy, which targets different versions of Adobe Photoshop software to the needs of specific types of customers, continued to succeed in the marketplace. Adobe Photoshop CS maintained its leadership position as the software of choice among professional photographers and advanced hobbyists, while Adobe Photoshop Elements and Adobe Photoshop Album software put professional but easy-to-use capabilities—such as retouching and organizing photos—at the fingertips of a growing number of digital imaging enthusiasts around the world. In North America alone, Adobe Photoshop permeates the culture—appearing in a *New Yorker* magazine cartoon caption, talked about on Jon Stewart's *Daily Show*, and even serving as “the question” to a *Jeopardy* TV show “answer.”

Extending our Adobe Photoshop franchise, in 2004 we launched Adobe Photoshop Services, partnering with Ofoto, Eastman Kodak's online photo service subsidiary. Digital imaging enthusiasts can place online orders with Ofoto directly from their Adobe Photoshop software. They can also create professional-quality Photo Books within Adobe Photoshop software and then send the entire project to Ofoto to be printed and delivered to their door, or sent as a gift to friends and family.

Further demonstrating Adobe's leadership in the evolving digital imaging marketplace, professional photographers asked us to help them solve emerging workflow and archiving problems with the new RAW formats generated by advanced digital cameras. We have done so by introducing an important new digital negative format, DNG, which provides a standardized method for storing and reading RAW images and safeguarding them for future generations.

Also benefiting from the impressive capabilities gained with Adobe solutions, many filmmakers and video producers took advantage of our platform of high-productivity digital imaging and video applications, including Adobe Premiere® Pro 1.5 and Adobe After Effects® 6.5 software. For example, After Effects was nominated for a Technical Oscar for the innovations it enabled in movies like *The Aviator*. The Adobe Video Collection, which includes both Adobe Premiere Pro and Adobe After Effects, as well as Adobe Encore™ DVD for DVD production and Adobe Audition® for sound editing, continued to score big with cross-media professionals who appreciate the advanced capabilities and greater productivity gains they can get using this complete, integrated solution.

Bringing a little bit of Hollywood to the home videographer, we also introduced Adobe Premiere® Elements software for people who want more creative control and reliability when they are editing home videos. Leveraging the award-winning professional functionality of Adobe Premiere Pro, Adobe Premiere Elements automates many tedious tasks so that video hobbyists are free to experiment with effects, transitions, text, and audio. Using Adobe Premiere Elements, footage can easily be captured from a DV camcorder directly to the video timeline, edited with professional-level effects, and delivered as stunning custom DVDs, complete with menus and scene indexes, to share with family and friends.

### **Enterprises automated more workflows for greater productivity**

Adobe also made an enormous difference for enterprise and government customers in 2004. Drowning in paper and impeded by old-fashioned manual processes, enterprises increasingly adopted the Adobe Intelligent Document Platform to help improve efficiencies and gain competitive advantage.

Bridging the digital and paper worlds of an organization, the Adobe Intelligent Document Platform streamlines and automates document-based processes. Unleashing the power of the Intelligent Document Platform, Adobe Acrobat software on the desktop and the recently introduced Adobe LiveCycle™ server software together provide Adobe Document Services, which enable users to generate, collaborate on, and manage electronic documents. This, in turn, allows organizations to be far more productive, and save money in the process.

As part of the 2004 Adobe LiveCycle server software launch, we introduced two additional capabilities that further extend the usefulness of Adobe Document Services. The new Adobe LiveCycle Policy Server software enables organizations to control the use of documents, even after they have been sent outside the enterprise, which is a major benefit in today's world of "extended enterprises." And by merging paper-based and electronic forms—virtually eliminating the need to key and re-key repetitive data into core transaction systems—the new Adobe LiveCycle Barcoded Forms software is helping enterprises and government agencies, including the U.S. Internal Revenue Service, dramatically improve efficiency.

*Enterprises increasingly adopted the Adobe Intelligent Document Platform to help improve efficiencies and gain competitive advantage.*

We continued to work closely with industry-leading partners to deliver integrated, higher value solutions that benefit our mutual enterprise customers. For example, Adobe LiveCycle Document Services are now included in many IBM® vertical market applications, including their Insurance Claims Management, Policy Management, Bank Branch Transformation, Government eForms, and Records Management solutions. And because of our joint efforts with SAP, enterprise customers will be able to take advantage of interactive forms, which integrate the advanced capabilities of Adobe PDF and Adobe LiveCycle server software into SAP applications. Further, organizations will be able to extend their existing SAP processes outside the firewall to fully automate transactions with their customers, suppliers, and partners.

At the close of 2004, building on our successful segmentation strategy, we announced the Adobe Acrobat 7.0 software family, including Acrobat Professional, Acrobat Standard, and Acrobat Elements software. The Acrobat family provides higher value uses beyond PDF creation—such as ad hoc forms, gathering feedback and approvals, and digital signatures—to help meet the varying needs of specific customer segments. In 2004, we began to penetrate even deeper into this segmented customer pool by targeting the Acrobat product family to address customer challenges in key vertical markets, including architecture, engineering, and construction; government; manufacturing; financial services; and education.

## Ongoing customer challenges provide ongoing opportunities

In 2004, we exceeded expectations and made great inroads on our mission to help people and businesses communicate better. But we can do even better. Adobe's leadership across diverse markets and geographies puts us in an outstanding position to continue to help customers worldwide meet their ever-evolving needs for better communication capabilities. The fact is, customer challenges present enormous opportunities for Adobe, and we are prepared to deliver solutions that will benefit us all.

Newspaper and magazine publishers, for example, are looking to Adobe for tighter integration with their existing digital asset management systems to help them take further advantage of the advanced capabilities in Adobe InDesign CS and Adobe Creative Suite software. Large workgroups in creative fields such as advertising, graphic design, and book publishing need better support, which Adobe can provide by connecting the asset management capabilities in our Version Cue file manager software to much larger systems. We also have plans to extend the value of our Creative Suite platform with integrated services that will further enhance workflow capabilities and efficiencies. With the demand for creating and distributing rich content expanding into more areas, Adobe is well positioned to help creative professionals use video in new and exciting ways as it becomes an increasingly critical medium for creative expression that will impact virtually all facets of people's professional and personal lives. And Adobe can help creative professionals realize their vision across an array of new content formats—digital billboards, e-ink newspapers, interactive packaging, and a variety of mobile devices, including phones, handhelds, and even car navigation systems.

With DVD burners appearing on virtually every desktop and video-enabled cell phones and other devices in more people's pockets, Adobe's digital video opportunity is also expanding to home users in ever larger numbers. Increasing demand for digital imaging applications from communicators at work (to enhance a 3D architectural model or a photograph from an electron microscope, for example) and from hobbyists at home (to extend their investments in the estimated 300,000 digital single-lens reflex cameras projected to ship each month in 2005) provides a wealth of ongoing opportunities for Adobe's digital imaging and video platforms.

Going forward, our largest opportunity is in the enterprise, helping businesses and governments around the world automate their business processes. Major industry analysts have defined "document processing" as an emerging software market, one that we estimate will grow to approximately \$1 billion in 2005, providing a significant opportunity for Adobe in the years ahead.

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*We continued to successfully execute on our platform strategy. It's a strategy that is working, not just for Adobe but for our customers, partners, and stockholders.*

## A consistent strategy for continual innovation

In 2004, we continued to successfully execute on our platform strategy. It's a strategy that is working, not just for Adobe but for our customers, partners, and stockholders.

Underlying our core platforms are the ubiquitous Adobe PDF and Adobe Reader technologies, which hundreds of millions of people use regularly in both their personal and professional lives. At the heart of these technologies—and of everything we do at Adobe—is our unwavering commitment to innovation. And not just innovation for its own sake, but innovation for the sake of our customers.

We innovate by knowing our customers well, by understanding where they are and where they need and want to go. We innovate by investing strategically and intelligently in research and development (R&D)—approximately 20 percent of our revenue is earmarked for R&D—to build on our world-class technologies while also bringing forth next-generation solutions that help propel new and better ways to live and work. We innovate by partnering with other industry leaders and specialists who extend the value of Adobe's platforms by providing complementary technologies, solutions, and services that meet customers' ever-changing and more specialized needs.

Another area in which we innovate is in the way we run our own business. Adobe has been able to attract and retain employees whose inquisitive minds and creative talents keep our innovation engine going strong. They and our entire company are committed to making the world a better place, and we act on that commitment by contributing—with software donations, cash grants, and volunteer efforts—to help address critical needs in communities where Adobe employees live and work. Because of our innovative business practices and employee programs, Adobe has been recognized for many years as one of the “100 Best Companies to Work For” by *FORTUNE* magazine.

Our strategy and our focus remain steadfast. We leave the surprises up to our customers, who use Adobe platforms every day to accomplish things they could never do before, turn hopeful visions into helpful realities, and push the boundaries of their own remarkable imaginations.

We thank all of you who believe in our mission to help people and businesses around the world communicate better. And while we feel that we've made a great deal of progress toward accomplishing this mission, we are confident that with your continued support we can accomplish a lot more in the days and years ahead.

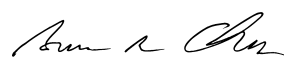
Sincerely,



**John E. Warnock**  
Chairman of the Board



**Charles M. Geschke**  
Chairman of the Board



**Bruce R. Chizen**  
Chief Executive Officer

## Executive Officers

**Bruce R. Chizen**

Chief Executive Officer

**John Brennan**

Senior Vice President of  
Corporate Development

**Karen Cottle**

Senior Vice President, General Counsel,  
and Corporate Secretary

**Murray J. Demo**

Senior Vice President and  
Chief Financial Officer

**Melissa Dyrda**

Senior Vice President of Corporate  
Marketing and Communications

**Ivan Koon**

Senior Vice President of the Intelligent  
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**Bryan Lamkin**

Senior Vice President of the Digital  
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**Shantanu Narayen**

President and Chief Operating Officer

**Jim Stephens**

Senior Vice President of Worldwide  
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**Theresa Townsley**

Senior Vice President of  
Human Resources

## Board of Directors

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Adobe Systems Incorporated

**Charles M. Geschke**

Chairman of the Board,  
Adobe Systems Incorporated

**Bruce R. Chizen**

Chief Executive Officer,  
Adobe Systems Incorporated

**Michael R. Cannon**

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Solectron Corporation

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Retired, Executive Vice President,  
Electronic Data Systems Corporation

**Carol Mills**

General Manager,  
Infrastructure Products Group,  
Juniper Networks, Inc.

**Colleen M. Pouliot**

Attorney

**Robert Sedgewick**

Professor of Computer Science,  
Princeton University

**Delbert Yocam**

Independent Consultant

## Independent Auditors

**KPMG LLP**

Mountain View, California, USA

## Risks and Uncertainties

This Annual Report contains forward-looking statements which involve risks and uncertainties that could cause actual results to differ materially. Factors that might cause or contribute to such differences include, but are not limited to: adverse changes in general economic or political conditions in any of the major countries in which we do business; delays in development or shipment of our new products or major new versions of existing products; introduction of new products by existing and new competitors; difficulties in transitions to new business models or markets; changes in demand for application software, computers, and printers; intellectual property disputes and litigation; changes to our distribution channel; the impact of malicious code, such as worms and viruses, on our computer network and applications; interruptions or terminations in our relationships with our turnkey assemblers; risks associated with international operations; fluctuations in foreign currency exchange rates; changes in accounting rules; unanticipated changes in tax rates; market risks associated with our equity investments; and our inability to attract and retain key personnel. For further discussion of these and other risks and uncertainties, individuals should refer to the Company's SEC filings, including the 2004 Annual Report on Form 10-K and quarterly reports on Form 10-Q to be filed in 2005. When used in this report, the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "targets," "estimates," "looks to," "looks for," "strives," and similar expressions, as well as descriptions of Adobe's focus for the future, are generally intended to identify forward-looking statements. You should not place undue reliance on the forward-looking statements, which speak only as of the date of this Annual Report. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document.

## Investor Relations

If you would like to receive additional financial documents, such as prior annual reports, earnings press releases, or Adobe's SEC filings on Form 10-Q or Form 10-K, you can request them without charge by calling (408) 536-4700 or sending an e-mail to [adobe@kpcorp.com](mailto:adobe@kpcorp.com). Please include your contact information with the request.

You can obtain Adobe financial calendar information such as earnings release dates, listen to Adobe management conference calls, view recent Adobe investor presentations, sign up to automatically receive Adobe investor news via e-mail, and obtain other Adobe finance-related documents online at [www.adobe.com/ADBE](http://www.adobe.com/ADBE).

*To contact Adobe's Investor Relations department, please use the following information:*

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Tel: (408) 536-4416  
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*To report a change of address or lost stock certificates, please notify our Transfer Agent:*

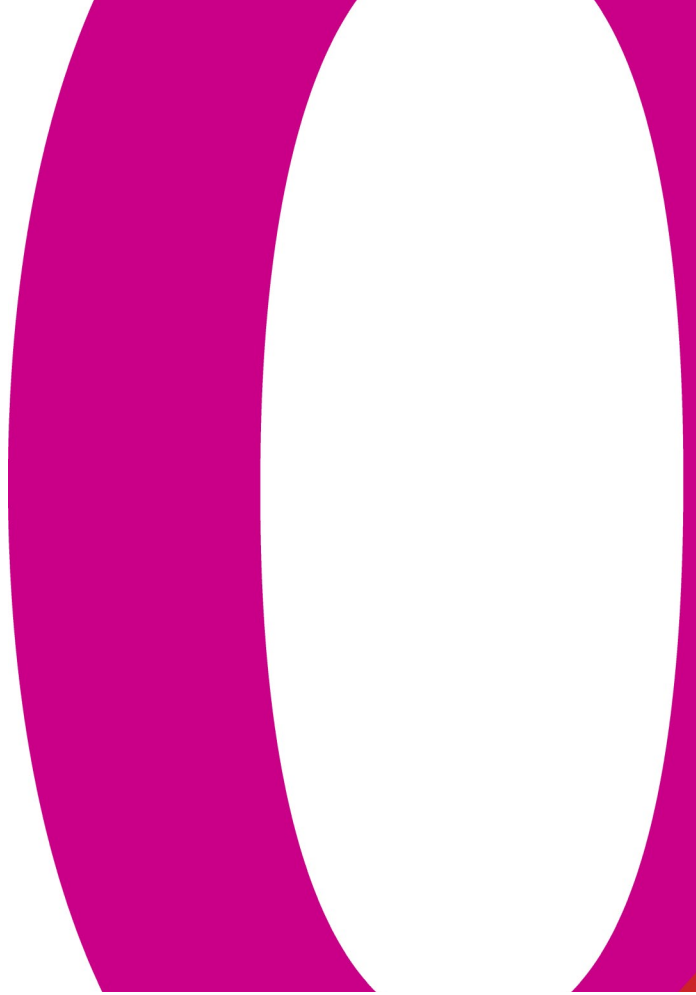
Shareholder Communications  
Computershare Investor Services LLC  
2 North LaSalle Street  
Chicago, IL 60602 USA  
Tel: (800) 455-1130

## Annual Meeting

The Annual Meeting of Stockholders will be held April 28, 2005 at 3 p.m. Pacific Time at Adobe's headquarters in San Jose, California, USA.

## Stock Exchange Listing

The Nasdaq Stock Market  
Ticker symbol **ADBE**



**Adobe**

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