

# ToOur**Stockholders**



It was another great year for the entire Adobe community.

Adobe's mission to help people and organizations communicate better gained strong momentum in 2005. A wide variety of businesses and individuals around the world used Adobe products to increase productivity, collaborate more effectively, and design and disseminate content in new and meaningful ways.

Our ongoing focus on meeting the needs of our customers, partners, and investors continued to deliver positive results. Customers, for example, benefited from the increasing capabilities they gained from using our industry-defining platforms and new software releases, while partner relationships flourished and deepened, particularly around innovative, integrated enterprise solutions. All this, plus our success in exceeding our targeted growth objectives in our markets—both business and financial—delivered significant value to Adobe stockholders.

In sum, it was another great year for the entire Adobe community.

And the good news got even better after the close of fiscal 2005, with Adobe's much-anticipated acquisition of Macromedia. In this letter, we'll review some of the highlights of the past year, and then tell you why we believe that by combining the passion and creativity of two industry-leading companies, Adobe will be even better positioned to drive the innovation that is revolutionizing how the world engages with ideas and information.

## Adobe delivered double-digit revenue growth for the third consecutive year.

### Record financial results

Adobe delivered double-digit revenue growth for the third consecutive year. Annual revenue grew to a record \$1.97 billion in fiscal 2005, an 18 percent increase from fiscal 2004 revenue. Our GAAP diluted earnings per share grew from \$0.91 (adjusted for stock split) to \$1.19, and our operating margin in fiscal 2005 was 37 percent, driven by a 23 percent increase in operating profit when compared to fiscal 2004. Reported net income grew to \$602.8 million, a 34 percent increase year-over-year. Adobe's Creative Professional revenue rose to \$743.8 million, a 21 percent increase from the prior year. Digital Imaging and Video revenue was \$432.8 million, flat year-over-year as many Adobe® Photoshop® software users migrated to our Creative Suite software. Adobe's Intelligent Documents revenue increased to \$708 million, a 31 percent rise from 2004 due to the strong adoption of Adobe Acrobat® software. Finally, revenue from our OEM PostScript® and Other segment was \$81.7 million, flat with the prior year.

With hallmark operational efficiency, Adobe successfully executed on its financial strategy in fiscal year 2005. We continued to strengthen our balance sheet and increased our cash and cash equivalents to \$1.7 billion. Results from our operations once again generated strong cash flow, which we continue to invest for Adobe's future.

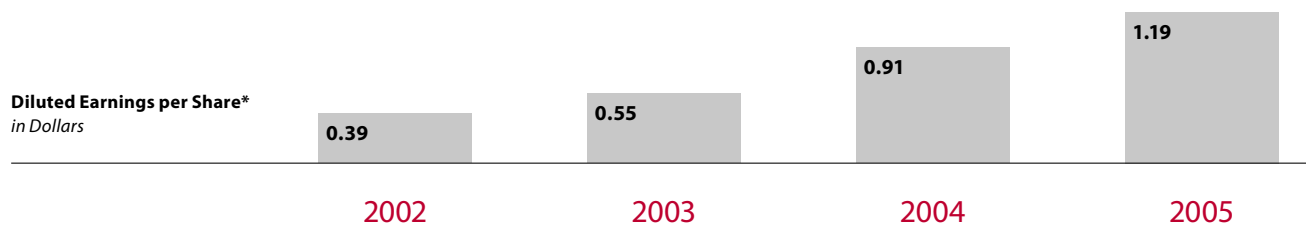
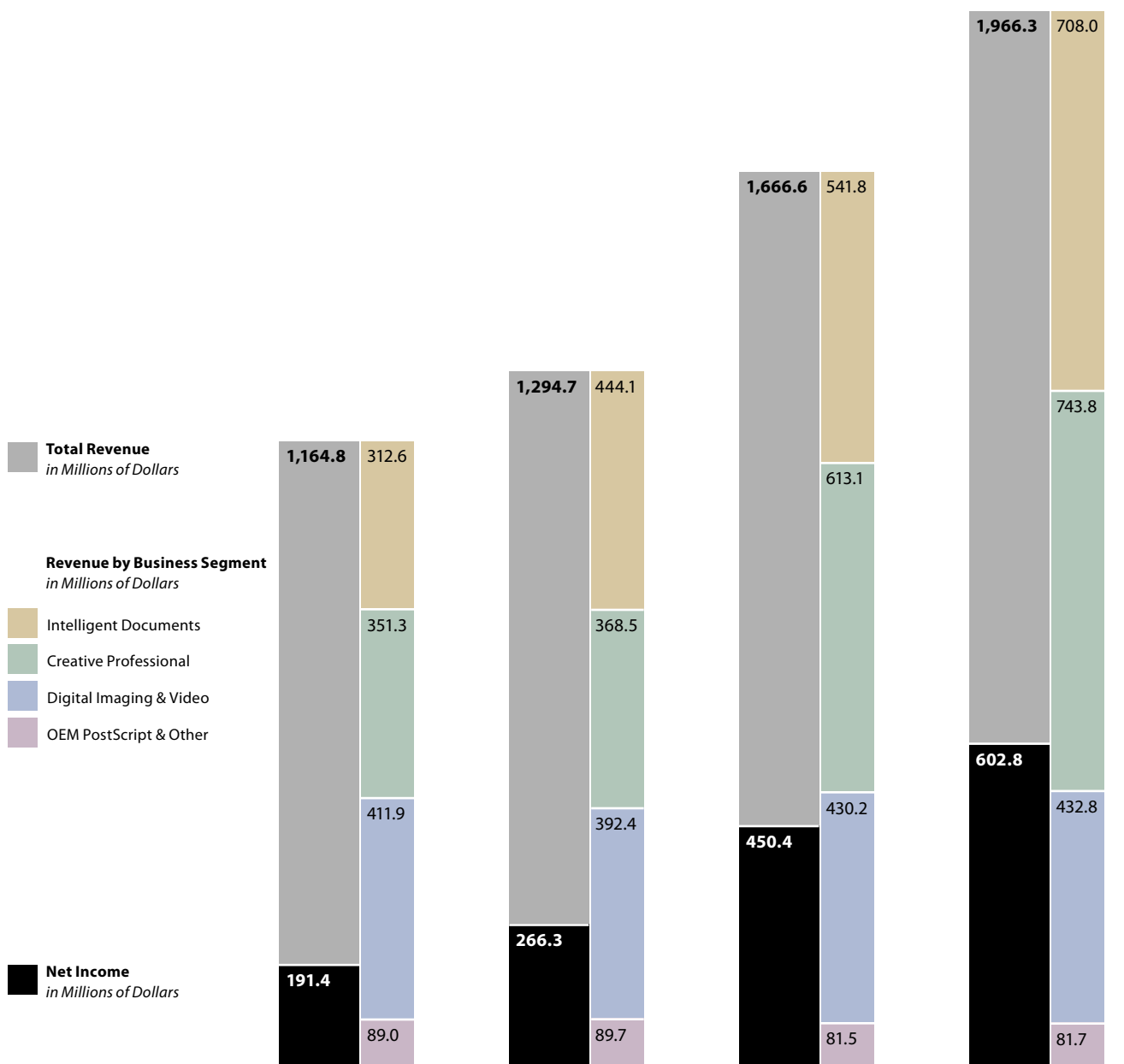
### The value of Adobe for our customers

Whether our customers are creative professionals, knowledge workers, enterprises, government agencies, or application developers, we are committed to continually enhancing their experiences with Adobe software platforms and solutions.

### Unleashing creativity for creative professionals and consumers

The global embrace given to our revolutionary Adobe Creative Suite platform, introduced in the fourth quarter of 2003, clearly demonstrated that creative professionals understood the added value our solutions delivered. With the 2005 launch of Adobe Creative Suite 2 software, we delivered still greater value. This latest version is a unified design environment that integrates full versions of Adobe Photoshop CS2, Illustrator® CS2, InDesign® CS2, GoLive® CS2, and Acrobat 7.0 Professional software, plus Version Cue® CS2 (an intuitive file version manager), Adobe Bridge (the suite's new navigational control center), and Adobe Stock Photos (which lets users quickly search more than 575,000 royalty-free images). Now, creative professionals can realize their ideas in a variety of media faster and more easily than ever before.

On its own, Adobe InDesign CS2—with its capabilities for enabling enhanced creativity and streamlined workflows—had a record revenue year as it continued to attract global publishing companies and advertising agencies, including Ogilvy & Mather, DDB Worldwide, and Wunderman.



\*Split adjusted

We are committed to bringing ever-increasing value to customers' experiences with Adobe software platforms and solutions.

For digital imaging professionals, we continued to offer our flagship Adobe Photoshop software, the acknowledged gold standard for photographers around the world. The new Adobe Photoshop CS2 drew rave reviews from a still-expanding universe of customers and received accolades from industry experts, as well as industry awards, for its powerful new capabilities. The growing adoption of digital single-lens reflex cameras continued to be a strong driver for our Photoshop franchise among professional photographers as well as hobbyists.

The proliferation of video—streaming over websites and cell phones, animating kiosks and billboards, even working its way into workflows and business communications—presents exciting opportunities for filmmakers and videographers, and for Adobe. Our leading Adobe Premiere® Pro and Adobe After Effects® software products are among the editing and special effects tools of choice for professional filmmakers and video producers. Now being used as a complete high-definition (HD) workflow solution, the Adobe Video Collection brings together our video and audio software, providing everything needed to produce dazzling HD results. This momentum continued into 2006 with the announcement in January of Adobe Production Studio software, part of the Creative Suite family, which brought integration of Adobe's video solutions to an entirely new level.

And what about the growing legions of aspiring photographers and videographers? Adobe Photoshop Elements 4.0 software is the choice of photography hobbyists, while Adobe Premiere Elements 2.0 software is tailored to meet the demands of home videographers who strive for Hollywood-type effects. Our new bundle puts both of these products into a single, cost-effective package, so serious hobbyists can create even more entertainment for friends and family.

### **Helping enterprises and governments streamline workflows**

Increasing productivity is a key goal of organizations worldwide. Helping businesses and government agencies achieve this goal, Adobe's Intelligent Document Platform bridges the digital and paper divide that is endemic in many enterprises today.

At the heart of our enterprise strategy are the free and ubiquitous Adobe Reader® software and Adobe Portable Document Format (PDF). Adobe Reader enables users to view, print, and interact with documents across a wide variety of platforms. Adobe PDF is recognized by industries and governments worldwide as a de facto standard for more secure, dependable electronic information exchange. The millions of PDF documents on the web today are evidence of the number of organizations that rely on Adobe PDF to capture information. In 2005, PDF/A was formalized as a global ISO standard for archiving, joining what has become a family of industry standards for other document-intensive industries, including PDF/X (for graphics and professional publishing).

In 2005, we delivered Adobe Acrobat 7.0 software, extending the value of Acrobat beyond simple PDF file creation to higher impact uses, such as more secure collaboration, the design of interactive forms, and digital document signing. Acrobat 7.0 gets everyone literally on the same page, enabling teams of knowledge workers within and across organizations to combine all sorts of files—both electronic and paper—into one compact “intelligent” document that streamlines business-critical communications while increasing document control and security. With its exceptional versatility, Adobe Acrobat 7.0 is able to easily address diverse customer needs in specific vertical markets. For example, it supports 3D content within PDF files, which is of enormous value to those working in the field of architecture, engineering, and construction (AEC). Leading AEC publications have called Adobe Acrobat 7.0 “exciting” and “essential,” and it is being embraced by major customers in AEC, as well as by those in other markets such as financial services, manufacturing, government, and education.

Our Adobe LiveCycle™ server software—which makes it easier for organizations to deploy solutions that effectively create, capture, and integrate information across their extended enterprise—gained new ground in 2005. Adobe LiveCycle software is helping governments and enterprises improve customer service and communications with customized, PDF-based Intelligent Documents delivered via virtually any channel; collaborate with business partners more effectively with documents that bridge information with back-end systems; and add security and authentication features to help control who can view and interact with documents. For example, some of the largest financial services companies in the world, including H&R Block and Ameriprise Financial, are using Adobe LiveCycle software to automate and streamline business processes that span systems, business rules, and departments. The latest enhancements to the software automate people-centric processes that improve customer communications, increase internal efficiencies, and help organizations meet compliance initiatives.

In addition to delivering our own solutions, Adobe works closely with industry-leading partners to provide integrated, high-value solutions that benefit our mutual enterprise customers. For example, our work with SAP has resulted in the joint delivery of interactive forms based on Adobe software. By integrating Adobe PDF capabilities into current versions of SAP applications, the solution enables SAP customers to automate and streamline paper-based processes and extend core systems to thousands of users within the enterprise as well as beyond it to customers, partners, and suppliers. And our ongoing partnership with EMC Documentum has led to powerful collaboration and form solutions that help government agencies and enterprises better communicate and interact with their employees, customers, and partners.

## Enhancing value by adding Macromedia to the mix

What do you get when you combine two industry-leading companies, both on strong growth trajectories and with tremendous cross-business synergies? When the companies are Adobe and Macromedia, you get an Adobe that's better than ever, an Adobe with more assets and capabilities that enable us to continue to lead in the areas in which we've always been strong while also addressing many new opportunities.

You get more customers who can look to Adobe for all their innovative communications-centric software, a wider world of partners for developing more integrated solutions, and a larger team of employees who are passionately dedicated to helping one powerful industry leader grow faster as a single entity than either company could have grown alone.

You also get something no other company can come close to matching: the new Adobe Engagement Platform.

## Redefining how people engage with digital information

This new software platform will combine the ubiquitous Adobe PDF and Adobe Reader technologies with the also-ubiquitous Macromedia® Flash® and Flash Player technologies as well as with HTML. It will allow anybody who wants to create and communicate compelling, actionable applications and content to do so in a rich, reliable, more secure, and engaging manner—across platforms, in virtually any medium, and on devices ranging from cell phones to servers. With open standards and APIs, it will allow solution providers and partners to develop their own rich solutions based on the new platform. And it will allow Adobe to continue to revolutionize the way individuals and organizations communicate information and ideas.

Creative professionals, for example, will be able to create content once and deliver it across multiple operating systems, devices, and media, providing more compelling experiences for a wider range of end users. Helping to make this a reality, Adobe announced three new product bundles upon completion of the Macromedia acquisition. The bundles combine the design and publishing power of Adobe Creative Suite 2 software and Adobe video tools with the interactive strength of Macromedia Flash Professional 8 and Macromedia Studio 8 software.

Knowledge workers will benefit from new collaboration capabilities emerging from our ability to combine Adobe PDF and Adobe Acrobat technologies with Macromedia Breeze® software, which takes advantage of the Flash Player to provide real-time, face-to-face collaboration—including the use of engaging multimedia content—among people in multiple locations and time zones. Industry leaders such as Cisco and Avaya have integrated their communication solutions with Breeze. In fact, Cisco has licensed Breeze as the web conferencing component in its rich communication solutions targeted at the small and medium business and enterprise markets.



We are continuing to push the boundaries of the digital universe as we revolutionize how the world engages with ideas and information.

Enterprises will also benefit from the rich possibility of solutions that combine the power of Adobe LiveCycle server software and the Macromedia Flex™ application framework, which can present information from an enterprise system in a rich, dynamic, and interactive way. SAP, one of Adobe's key partners for enterprise solutions, also has been partnering with Macromedia on integrating Flex capabilities into SAP solutions. Our synergy is strong here, and across the board.

Mobile application developers also will be able to leverage the Adobe Engagement Platform to bring envelope-pushing applications to their on-the-go customers. Before the acquisition, Macromedia already had agreements in place with the top six major handset manufacturers in the world, resulting in Flash Lite™ software now appearing on millions of mobile phones—signaling significant new opportunities for Adobe.

In short, the new Adobe Engagement Platform—with its ability to enhance how people create, manage, deliver, and engage with information—provides a wealth of opportunities for our widening world of customers. We are excited about what lies ahead.

Prior to our acquisition of Macromedia, Adobe was already one of the most diversified software companies in the world. Today, we are larger and even more diversified, in terms of geography (more than half of Adobe revenues are generated outside the United States) and in terms of the number of markets we serve with software franchises (think Adobe PDF, Adobe Acrobat, Adobe Photoshop, and now, Macromedia Flash).

Of course, the acquisition will bring more changes to Adobe. But change is essential to continued success, and we are a company that has already undertaken a number of successful transformations in our more than two decades as an industry leader. We went from being the “PostScript company,” selling predominately to printer manufacturers, to becoming a leading shrinkwrapped software company with millions of end-user customers around the world. More recently, we made the successful transition into the enterprise, where we continue to gain significant traction helping global organizations successfully bridge their paper and digital divide to improve productivity and contain costs.

Our transformation into an industry-leading platform company has now been further strengthened with the new Adobe Engagement Platform, which will give customers and developers a strong, reliable foundation on which to standardize and build applications and services, while giving Adobe a significant competitive advantage that can serve us well for decades.

## The next evolution

The world continues to move in our direction. Adobe has always been about creating software that helps people and organizations communicate better. You can see the results of this everywhere. Whether you look at a newspaper, a magazine, a website, a movie, a TV show, a commercial, a billboard, a government form, or a package, you are, in all likelihood, seeing something that was touched by Adobe software.

Now, as the world seeks even richer, more interactive, and engaging ways to communicate, Adobe is uniquely positioned to deliver on the promise of what's come to be known as Web 2.0, the next evolution of what the web experience can be. The fact is, we already are taking our customers to where the markets will be in the future. We're leading with iconic brands and unparalleled technologies. We're leading with industry standards and with our new Engagement Platform, which we're confident will revolutionize how the world communicates information.

As we enter this next phase of our more than two-decade history, we face more competitive threats than ever before. But we believe that our strong team and our leading position in the markets we serve today, combined with our substantial R&D investments to develop breakthrough solutions for the future, will bring us continued success. Our goal, as always, is to deliver ever-higher levels of value to the entire Adobe community—our customers, partners, and investors. Now that community has grown, as we have inherited formidable new assets and amazing talent from Macromedia. The new Adobe, like the old, is home to some of the finest minds in our industry, and they are the ones who ensure our success day in and day out. We thank the entire Adobe team for their brilliant ideas, their unflagging energy, and their commitment—whether new or ongoing—to the company's success. We also thank them for their efforts toward making the world at large a better place. We are proud of our employees who help fulfill Adobe's long-standing commitment to contribute—through volunteerism, cash grants, and software donations—to the communities in which we live and work.

With all we have accomplished, there is still much more to do. We are hard at work, continuing to push the boundaries of the digital universe as we revolutionize how the world engages with ideas and information. We appreciate the trust that you—our stockholders—have put in us, and it is for all of you that we move forward as a new and better Adobe, confident in the knowledge that the best is yet to come.

Sincerely,



John E. Warnock  
Chairman of the Board



Charles M. Geschke  
Chairman of the Board



Bruce R. Chizen  
Chief Executive Officer

## **Executive Officers**

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Chief Executive Officer

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Senior Vice President,  
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*Murray J. Demo*  
Executive Vice President and  
Chief Financial Officer

*Stephen A. Elop*  
President,  
Worldwide Field Operations

*Shantanu Narayen*  
President and Chief Operating Officer

*Peg Wynn*  
Senior Vice President,  
Human Resources

## **Board of Directors**

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Chairman of the Board,  
Adobe Systems Incorporated

*Charles M. Geschke*  
Chairman of the Board,  
Adobe Systems Incorporated

*Bruce R. Chizen*  
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Adobe Systems Incorporated

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Attorney

*Robert Sedgewick*  
Professor of Computer Science,  
Princeton University

*Delbert Yocam*  
Independent Consultant

## **Risks and Uncertainties**

This Annual Report contains forward-looking statements, including statements regarding product plans, future growth, and market opportunities, 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, those discussed in our SEC filings, including the 2005 annual report on Form 10-K, which is included with this Annual Report, and quarterly reports on Form 10-Q to be filed in 2006. 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 our 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 that 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).

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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 March 28, 2006, 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

## **Independent Auditors**

KPMG LLP  
Mountain View, California, USA

Better by Adobe.™



**Adobe**

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