



ADBE 6,677 Employees TTM Sales Growth: 16% Op Margin: 30% **IT Software**

Shantanu Narayen (44) became CEO of Adobe Systems on December 1, 2007 after his predecessor and mentor, Bruce Chizen, unexpectedly resigned with two weeks notice after fourteen years at the firm and seven years at the helm saying simply that he wanted to “just take a step back and do something else, not knowing yet what that something else was”. It certainly wasn’t a conventional transition process but we feel it is one that will work perfectly well for Adobe shareholders as Shantanu Narayen has been groomed for the position for many years and Bruce Chizen will be staying on in a paid “advisory role” for the coming twelve months. Narayen inherits a seasoned management team and strong product line with excellent momentum that he helped to form and fashion.

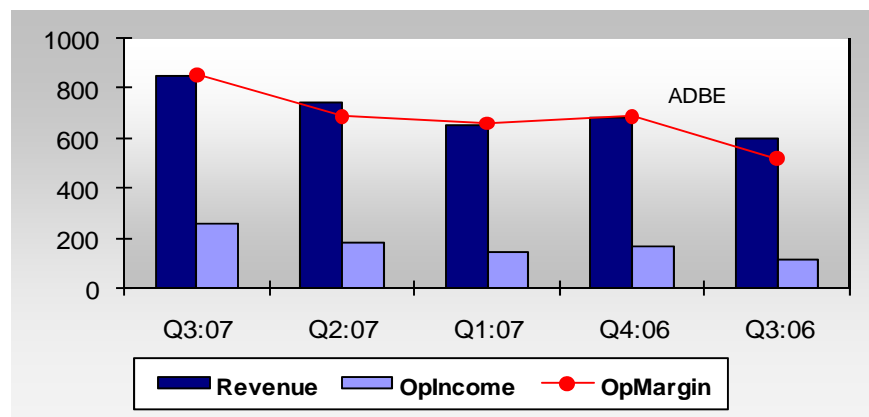
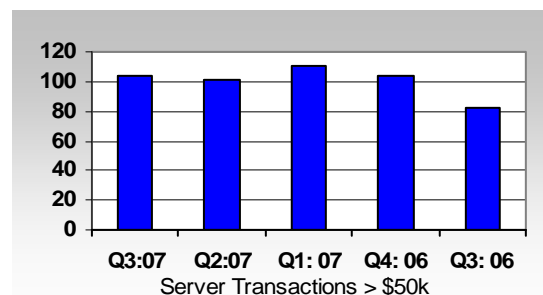
Shantanu Narayen joined Adobe in January 1998 as a general manager in software engineering. In January of 1999 he became SVP of Adobe’s worldwide product marketing and development. He was promoted to

MCV Ranks :

Industry: 2

CEO: 1

Team: 2



ADBE Major Corporate Events:

11/13/07: On November 9, 2007 Bruce R. Chizen informed the Board of Directors of his decision to resign as CEO of ADBE as of November 30, 2007. Shantanu Narayen, current President & COO, was appointed as President and CEO and member of Adobe’s Board of Directors, effective December 1, 2007. Chizen will serve as strategic advisor until November 28, 2008 and will receive 50% of his former CEO base salary to serve as a strategic advisor to the firm for FY2008.

09/17/07: Adobe issued press release announcing financial results for its third quarter of fiscal year ended August 31, 2007. Adobe achieved record revenue of \$851.7 million, compared to \$602.2 million reported for the third quarter of fiscal 2006 and \$745.6 million reported in second quarter of fiscal 2007. GAAP operating income was \$255.0 million in the third quarter, compared to \$110.0 million in the third quarter of fiscal 2006 and \$180.4 million in the second quarter of fiscal 2007.

08/16/07: Company entered into Amendment to Credit Agreement dated August 13, 2007, with Bank of America, it amends the company’s existing agreement as of February 16, 2007 which provided for \$500 million in lender loan commitments, with an option by the Company to request an additional \$500 million in commitments from original and additional eligible lenders. As of August 16, 2007, the Company had no outstanding borrowings under the Credit Agreement.

06/22/07: Mr. Chizen entered into a Rule 10b5-1 trading plan which provides for the exercise of up to 1,700,000 Adobe stock options and the subsequent sale of the acquired shares on the open market at prevailing market prices commencing July 21, 2007 and ending on March 31, 2008, subject to

President and COO in January, 2005. He served as President & COO from January, 2005, to November 2007, when he was appointed CEO.

Narayen was born and raised in Hyderabad, India and holds a bachelor’s degree in electronic engineering from Osmania University in Hyderabad. He came to the United States in 1984 to get a masters in computer science from Bowling Green State University in Ohio. He then worked at Apple Computer and received his MBA at night from the Haas School of Business at Berkeley in 1993, while working at Apple. From 1994 to 1996 he was the Director of Desktop and Collaboration products at Silicon Graphics. In 1996 he co-founded Pictra, and early digital photo sharing service, which he left two years later to join Adobe in 1998. Narayen is an accomplished sailor and represented India in the first Asian Sailing Regatta in 1981. He currently serves on the Advisory Board of the Haas School of Business at Berkeley and is a director of the Metavante Corporation (NYSE: MV).

Shantanu Narayen is a very substantive engineer whose core skill set rests in his hands-on operating experience, credibility with fellow engineers, and his comfort with international business. For investors, the good news is that Narayen is unlikely to change much in terms of Adobe’s existing



ADBE Market Cap: \$25 B ROE: 17% Relative Industry Strength: 2 **IT Software**

strategy and tactical plans. His Indian roots will prove very useful in helping Adobe manage R&D and operating cost by leveraging its two existing Indian operations in Noida and Bangalore. Investor's can also take some comfort that former CEO, Bruce Chizen, has signed a formal advisory agreement that will keep him somewhat involved and available on a consulting basis for the coming year. A note of caution for investors is that Chizen continues to be an aggressive seller of ADBE shares in November, though he has historically held only the minimum required of him by Adobe's board of directors.

The Adobe Management team has clear performance incentive benchmarks based on revenue and operating margins and a good alignment with its equity shareholders. The fiscal 2007 EIP required executives to achieve 90% of the Company's revenue target (which they exceeded) as an initial threshold for any incentive bonus payments and the target bonuses maximum payout is 300% of salary. Once the initial threshold is reached, Adobe must then achieve greater than 95% of target plan revenue and operating margin for executives to be eligible for additional bonuses. The

specified limitations, minimum price thresholds and early termination or suspension upon the occurrence of certain specified events.

06/14/07: Adobe announcing financial results for its second fiscal quarter ended June 1, 2007. Revenue of \$745.6 million, compared to \$635.5 million reported for the second quarter of fiscal 2006 and \$649.4 million reported in the first quarter of fiscal 2007. GAAP operating income was \$180.4 million in the second quarter of fiscal 2007, compared to \$147.9 million in the second quarter of fiscal 2006 and \$146.3 million in the first quarter of fiscal 2007.

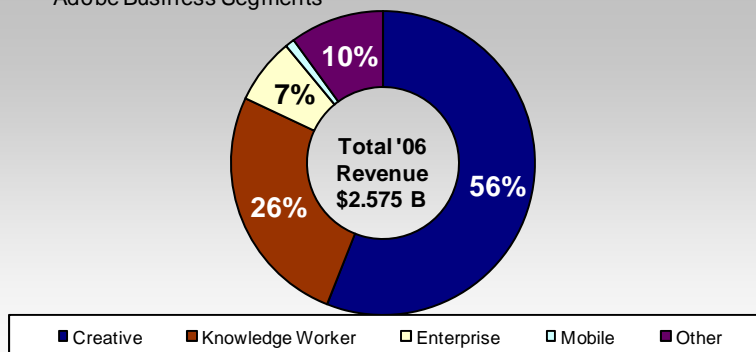
03/30/07: Prelim release of first fiscal quarter results ended March 2, 2007. "Q1 was a solid quarter for Adobe, as we came in at the high end of our earnings target range and were within our targeted range for revenue," said Bruce Chizen, CEO. "As Adobe prepares for the biggest product launch in our history, we are excited about our opportunities and bullish about our prospects for another year of strong performance." Company had \$2.3 billion in cash & equivalents net of the repurchase of 4.8 million common shares at a total cost of \$184 million in the first quarter.

01/24/07: Adobe Performance Share Program Effective January 24, 2007, the Executive Compensation Committee of the Board of Directors adopted the 2007 Performance Share Program to help align the company's management incentive with those of its stockholders, as well as to support the retention of key executives. All members of the executive management and other key members of senior management team will participate in the Program.

01/23/07: Mark Garrett is new CFO. Adobe announced that Mark Garrett was named Adobe's EVP & Chief Financial Officer. Mr. Garrett's employment with Adobe is to begin on February 1, 2007. Mr. Garrett received a \$100k signing bonus, an annual base salary of \$475k and is eligible for a pro-rated "AIP" performance bonus of up to 85% of his annual base salary in 2007. Mr. Garrett was also granted an option to purchase 275,000 shares of ADBE common stock, subject to standard four year vesting. Garrett was also granted 12,500 performance shares pursuant to the terms of the 2007 Performance Share Program.

11/13/06: Richard Rowley brought in as Principal Accounting Officer. Richard Rowley was appointed VP, Corporate Controller and Principal Accounting Officer. Mr. Rowley will receive an annual base salary of \$280k and is eligible to receive a bonus of up to 40% of his annual base salary upon attainment of AIP performance targets. Mr. Rowley was granted an option to purchase 50,000 shares of common stock on standard four year vesting terms under the 2003 Equity Incentive Plan. He was granted 5,000 performance shares to be earned, if at all, based on the objectives for fiscal 2007. Adobe entered into an indemnity agreement with Mr. Rowley, which provides, that Adobe will indemnify him for expenses, damages, judgments, fines and settlements he may be required to pay in actions or pro-

Adobe Business Segments



Sources: Company & MCV

Board also requires the CEO to hold the greater of 150,000 shares or 25% of the net shares acquired from RSU and option grants for two years. Finally, it's an additional comfort to know that Chuck Geshke and John Warnock, the original founders, are still major shareholders (with over 1 million and 2 million shares respectively) and they remain co-Chairman of the Company's board of directors.

Despite assurances to the contrary, we think Chizen's departure from the CEO slot was a surprise even inside Adobe. One reason for our thinking is that it is notable that no new employment agreement or amendment to Shantanu Narayen's existing agreement was made immediately before or after his appointment to the CEO spot. Given that the former CEO's salary was 40% higher and his cash bonus double that of Narayen's total cash compensation of \$952,000 in 2006 we expect that Narayen will



ADBE ROA: 14 % Institutional Ownership: 88% 573.8 M Fully Diluted Shares **IT Software**

be receiving a substantive raise in the coming year. One very positive note for shareholders is that Shantanu Narayen has been a substantial Adobe shareholder for many years. He is a beneficial owner of over 1,200,000 shares and options in ADBE and holds over 350,000 common shares of stock.

Risks abound for Narayen in his new position as much of the “good news” is already built into Adobe’s stock price and TTM P/E of over 36. Narayen’s near term success is likely to hinge on the Adobe’s ability to sustain its new found financial momentum with the Creative Suite 3 product line and to generate substantial revenue from the Flash and Flashlite initiatives in Internet based video and mobile devices. We think Flash, and particularly its ability to deliver video over the internet and wireless networks, represents the biggest near term organic growth component in the Adobe product line.

The longer term challenge for Narayen is to continue to keep Adobe’s engineering abilities and talents centered on true market demands and avoid the insular development environment that pervaded the Company before Bruce Chizen restructured the firm.

We plan to revise and update this executive profile on Narayen and his management team as soon as the Fiscal 2007 financials and the expected changes to Narayen’s employment agreement become available.

R. Ponvert 12/07/07

09/21/06: Board approves Deferred Compensation Plan

06/12/06: Former Macromedia CEO to leave Adobe at end of year. Stephen Elop, former Macromedia CEO, and currently President of Worldwide Field Operations, announced his intention to resign effective December 5, 2006. This is in accordance with terms of a one year stay bonus arrangement at the time of the Macromedia acquisition by Adobe and Mr. Elop’s amended and restated employment agreement, dated May 23, 2005. Elop joins Juniper Networks in January 07.

05/16/06: Randy Furr hired to replace Murray Demo as CFO. Company signs employment offer letter with Randy Furr as EVP and CFO. Mr. Furr’s agreement includes a \$100k signing bonus and he will receive an annual base salary of \$500,000 and is eligible to receive a bonus of up to 75% of his annual base salary under AIP terms and conditions. Mr. Furr also receives an option to purchase 300,000 shares of common stock at \$28.78 per share and is granted a target award of 20,000 Performance Shares. Options are subject to standard four year vesting and the Performance Shares are subject to achievement of Adobe’s EIP metrics.

03/22/06: Murray Demo resigns as CFO of Adobe. Company enters into an Employment Transition Agreement with Murray J. Demo, EVP & CFO since June 2000 and former Controller. Mr. Demo agrees to continue to serve as the Company’s CFO until June 16, 2006 or such earlier time as the Company requests that he resign from that position. Demo will continue to be a full-time employee of the Company through June 16, 2006 and then become a part-time employee working up to 20 hours per week at a rate of \$223.55 per hour. Mr. Demo’s equity awards are not modified by the Transition Agreement and he will receive a pro-rated portion of his AIP bonus for 2006.

12/02/2005: Adobe acquires Macromedia. Merger closes between Adobe and Macromedia, Inc. and Macromedia becomes a wholly owned subsidiary of Adobe. The total estimated purchase price is approximately \$3.6 billion and includes Adobe common stock valued at \$3.2 billion, stock options with a fair value of \$311.9 million, estimated direct transaction costs of \$26.8 million, and estimated restructuring costs of \$58.9 million. Under the terms of the merger agreement each Macromedia stock option that was outstanding and unexercised will be converted into an option to purchase Adobe common stock. Adobe issues approximately 109.0 million shares of common stock based on an exchange ratio of 1.38 Adobe shares for each outstanding share of Macromedia as of December 3, 2005. The average market price per share of Adobe common stock is \$29.43 based on an average of six days surrounding the acquisition announcement.