



“The Aldus acquisition was a huge turning point for the company. It changed the nature of Adobe.”

— Linda Clarke

1994–1998

Expanding the Empire

The mid-1990s was a period of growth and change for both Adobe and the publishing industry. Adobe actively sought out and successfully completed acquisitions of several key companies, foremost among them its 1994 merger with Aldus Corporation, creator of the revolutionary page-layout program PageMaker. That deal alone catapulted Adobe into the upper tiers of personal software companies in terms of revenue. But increased revenue wasn't Adobe's only means of expansion. Publishing itself was undergoing a sea change, from paper-based production to online content distribution. Adobe tested new markets for its software, dipping a toe into the consumer arena and then wading into the tsunami that was the World Wide Web. As the company grew in both market share and influence, however, a raft of new challenges appeared.



1994

Apple ships
PowerPC Mac



Aldus After Effects 1.0 released



Adobe acquires Aldus

The Internet has
25 million users;
Netscape, Yahoo,
launched

1995

Industry consolidation: Fractal
Design buys Ray Dream;
Macromedia buys Altsys and Fauve

WWW has 18 million pages



Adobe
acquires Frame
Technology

Sun develops Java

Acrobat integrated
into Netscape browser



Adobe releases
PageMaker 6.0,
Photoshop 3.0,
PageMill 1.0

1996

Revenue: \$787 million
Adobe employees: 2,222

Microsoft releases Windows 95,
NT 4.0, and Internet Explorer



Adobe moves into
San Jose world
headquarters



Adobe releases
Acrobat 3.0,
PhotoDeluxe 1.0

Steve Jobs returns
to Apple, which
then acquires NeXT

ALDUS

THE ERA OF ACQUISITIONS

The September 1994 Seybold Seminars in San Francisco was a celebration for Adobe. A few weeks before, the company had successfully completed its merger with Aldus Corporation, the creator of PageMaker and one-third of the alliance that had revolutionized publishing in 1985. The combined company—joined under the Adobe Systems name—was the fifth-largest personal software company in the world, occupying turf held by office applications companies like Microsoft and Novell.

The Aldus merger was a turning point for Adobe, but it was just one of several mergers and acquisitions Adobe undertook in the mid-1990s. As it gathered companies and expanded its products and services, Adobe grew in influence, stature, and revenue. At the close of the 20th century, Adobe Systems was one of the world's largest personal software companies, second only to Microsoft.

The Aldus merger, and the Frame Technology acquisition that followed, had a deeper significance for Adobe. The company—once an intimate family of a dozen people whose numbers Warnock swore would never exceed 50—nearly doubled in size from 1,000 to 2,000 people, altering Adobe's culture and forcing the second layoff in the company's history. As it acquired software, Adobe also wrestled with product integration and market development. Nowhere were those issues more pronounced than in Adobe's union with its former co-revolutionary, Aldus.



“It was a merger of equals. Aldus had as much to give in this deal as Adobe did. We had products that filled in gaps.”

— Paul Brainerd

1997

Adobe's Windows application revenue overtakes Mac application revenue



Macromedia releases Flash

WWW has 351 million pages

DVD technology introduced

Adobe releases Illustrator 7.0, with Photoshop-like interface



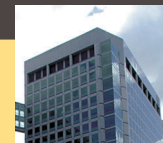
Agfa Apogee, first PDF-based prepress system, debuts

1998



Adobe releases ImageReady 1.0, PostScript 3

Apple unveils the iMac

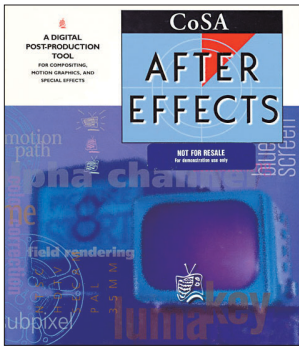


Adobe expands into East Tower

XML standard proposed

G3 Mac debuts

Adobe reorganization; Quark attempts takeover



Aldus had recently acquired After Effects from CoSA, which bolstered Adobe's desktop video efforts.



“Aldus’s culture was more like Apple’s—freewheeling and loose. Adobe was much more conservative.”

— Linda Clarke

Collision Course

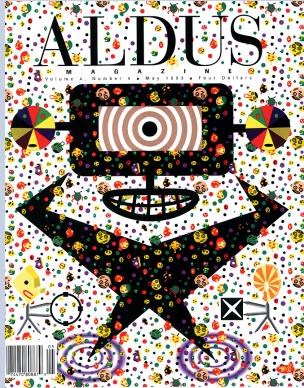
Since 1985, the alliance that had created desktop publishing pulled apart, as Adobe, Aldus, and Apple each pursued individual agendas. Proving it could not be narrowly defined as a systems company, Adobe acquired and developed software in emerging markets. Aldus, similarly determined not to be a one-trick company, expanded its product line beyond PageMaker to other graphic arts software applications. Apple continued to reel from management changes—particularly the ouster of Jobs’s replacement, John Sculley, and the uncertain leadership of Michael Spindler—and confusing product plans. The Adobe-Apple relationship, already frayed by the events of 1989, had been patched up under a new font-technology cross-licensing agreement, but the two former partners were no longer dependent on each other for their livelihood.

Adobe and Aldus, on the other hand, had been on a collision course for several years. Both companies had products that directly competed with the other’s. In 1988 Aldus licensed a PostScript drawing program from Texas-based Altsys Corporation. Called FreeHand, the program was locked in a fierce battle for market share with Adobe’s favorite son, Illustrator. While Adobe developed Photoshop for the Mac, in 1991 Aldus acquired PhotoStyler, a pixel-based image-editing program for Windows, and Adobe responded by releasing Photoshop for Windows in 1993. Also in 1993, Aldus acquired After Effects along with its developer CoSA (Company of Science and Art). After Effects, a postproduction special-effects package for moving images, was positioned as Aldus’s entry into the video market—assuming a role similar to that played by Premiere for Adobe. Aldus had products that didn’t compete with Adobe, too, such as the office presentation program Persuasion, a handful of consumer-oriented packages, and of course the granddaddy, PageMaker.

But whereas Adobe was prospering, Aldus was struggling. Its top two moneymakers—PageMaker and FreeHand—were second in their respective categories. QuarkXPress, developed by Denver-based Quark Inc., had overtaken PageMaker in the professional design market, and Illustrator was well ahead of FreeHand. Recent product and technology acquisitions like the purchase of After Hours Software, the developer of address book and calendar software, strained Aldus’s resources. The company’s profit margins were wafer-thin. For the 1992 fiscal year, Aldus reported revenues of \$174 million but profits of just \$6.8 million.

Paul Brainerd, who founded Aldus in 1984 with \$100,000 of his own money, was tiring of the constant pressure. “I had been doing the annual update to our strategic plan as well as the three-year projections, and I could see that the industry was changing,” says Aldus’s former president and CEO. “The smaller niche players were struggling, the margins shrinking, the distribution channels consolidating. Plus, I was doing less

ADOBE AND THE ART OF ACQUISITION



Adobe's vice president of venture development, Fred Mitchell, reckons he's seen thousands of companies since 1987, when he was first given the assignment of scouting new products and technologies. Some companies came to Adobe seeking an investment; others were ripe for acquisition. Mitchell decided which candidates made the cut to show John Warnock. "We'd been doing this a long time, John and I. He relied on my ability to do the early evaluation on these ideas, and he trusted me to not miss too many things," Mitchell says. "I've followed up on hundreds of opportunities and would show John two to five a month."

Warnock was a quick study. "He was adept at synthesizing the ideas and reducing the technology to its simplest terms," Mitchell says. "In each meeting he challenged himself to understand the product at a conceptual level." For entrepreneurs, making the pilgrimage to Adobe was akin to journeying to the gleaming city for an audience with the great and powerful Warnock. "It was hard to show him something really new," Mitchell says. Chances were, Warnock had already thought of it.

Here's a list of companies that Adobe acquired.

1991 Emerald City Software (TypeAlign font-manipulation software)

1992 OCR Systems (technology for Acrobat Capture)

1992 Nonlinear Technologies (handwriting-recognition software)

1993 After Hours Software (TouchBase and DateBook personal-information managers, acquired by Aldus)

1993 The Company of Science and Art (After Effects postproduction video software, acquired by Aldus)

1994 Aldus (PageMaker, Persuasion, FreeHand, PhotoStyler, TrapWise, PressWise, and more)

1994 LaserTools (font-scaling technology for non-PostScript printers; became PrintGear)

1994 Compumation (Color Central prepress software, acquired by Aldus)

1995 Frame Technology (FrameMaker)

1995 Ceneca Communications (PageMill and SiteMill Web site-creation software)

1995 Visualware

1995 Hyphen (printer software)

1996 Ares Software (font-scaling software)

1996 Swell Software (Web server software)

1997 DigiDox (personalized PDF-creation software)

"Just as we were starting to catch our breath, Frame happened."

— Linda Clarke

"I followed up on hundreds of opportunities."

— Fred Mitchell

1997 Sandcastle (two-way Internet communication technology)

1997 FinePoint (Web graphics software for ImageReady)

1999 GoLive (Web design software)

1999 Attitude Software (3D technologies)

1999 Photomerge (photostitching software for panoramic images)

2000 Glassbook (software for creating, reading, and deploying e-books)

2001 Fotiva (image-management and image-sharing software)

2002 Accelio (electronic forms solutions)



of the things I like to do—customer relations and product development—because I was spending too much time with stock analysts and attorneys.”

As early as 1991, Brainerd told his board of directors that he wanted to relinquish the reins of the company when it reached its 10-year anniversary. Aldus retained an executive recruiter to find a successor for Brainerd, but replacing the founder of a company is always difficult and no viable candidate had appeared by 1993. The company’s declining profits didn’t help the search, and by the fall of 1993 Brainerd decided to look at selling or merging the company. “I went back to the board with a list of potentials. One of them was Adobe,” Brainerd says. “I arranged to have breakfast with John Warnock.”

Merging Traffic

On the surface the merger was a good fit. Aldus’s products aimed at print publishing, interactive publishing, graphics, and production-service providers dovetailed with Adobe’s. Aldus’s prepress software meshed nicely with Adobe’s PostScript systems division. Adobe wasn’t terribly interested in Aldus’s consumer products, but the low-end page-layout and graphics applications, such as Home Publisher, SuperPaint, and IntelliDraw, provided steady if unspectacular income.

There was significant overlap in the companies’ graphics and interactive lineups, but the deal did secure for Adobe a foothold in the page-layout market. Adobe needed a page-layout program to sell its message of integrated communication products, and despite PageMaker’s waning professional influence, it still had many loyal customers. Above all, a small group within Aldus was working on a next-generation page-layout program that Warnock and Geschke thought showed promise. Acquiring Aldus would be an investment in the future of page layout.

Warnock, Geschke, and Brainerd announced the merger at a press conference in March 1994. The deal was presented as a merger of equals but in reality was an acquisition. Aldus’s revenues were approximately two-thirds that of Adobe’s, but its profits were one-tenth. For the nine months prior to the merger, Aldus reported a net income of \$5.1 million on revenues of \$172.2 million while Adobe reported a net income of \$49.3 million on revenues of \$260.1 million. Aldus was a proud company, however. Although the basic terms of the deal were hammered out over the next four months, former CFO Bruce Nakao says the agreement underwent constant revisions. “An analyst described it to me as two fat pigs eating each other,” says Nakao of the negotiations.

Regardless of what happened in the boardroom, each company was committed to making the transition as easy as possible for its employees. A team of representatives from Aldus and Adobe met regularly to work

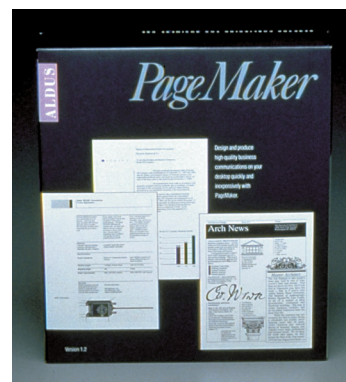


To explain the logic of the Adobe-Aldus merger, Geschke, Warnock, and Brainerd (pictured individually from left) made a videotape for employees, scenes of which are shown above.

through the details of the merger. “It was a textbook example of how to do it, marked by planning and communication and clarity,” Brainerd says. “We were very focused. As we were two equal-size companies, we paid a lot of attention to the employees.” Warnock, Geschke, and Brainerd held company meetings to answer questions and made videos to explain the merger to employees.

Gradually a picture of the new company emerged. The combined company, called Adobe Systems, would operate out of both Mountain View and Seattle. Each share of Aldus stock would be converted to a share of Adobe stock, for a final value of \$440 million. Brainerd was given a seat on Adobe’s board of directors, but he resigned from any day-to-day involvement in the company. As Brainerd owned 23 percent of Aldus, he stood to make a nice return on his \$100,000 investment. (Brainerd used much of the proceeds to launch a number of nonprofit organizations, including the Brainerd Foundation, for funding environmental groups, and Social Venture Partners, for funding community activism.)

Other details of the merger evolved over time. For example, not all of Aldus’s 13 products were carried forward under the Adobe label. Except for PageMaker, which Adobe believed its branding would help revive, and After Effects, for which Adobe had no comparable product, Aldus’s product lineup overlapped Adobe’s. PhotoStyler was redundant with Photoshop. Hitchcock, freshly acquired from the defunct Digital F/X, competed with Premiere. Adobe tried to keep Persuasion afloat, but Microsoft’s aggressive sales strategy for its PowerPoint buried it. The prepress products stayed until 1996, when Adobe spun off its prepress division as Luminous.



Aldus PageMaker helped start the desktop publishing revolution, but its market dominance had slipped prior to Adobe’s acquisition of it.