

Microsoft Targets Adobe in Web-Design Software.

Adobe Systems Inc. is facing increasing pressure from Microsoft Corp., which is using its deep pockets to challenge Adobe's dominance of Web design software.

Adobe's Flash software, which adds video and animation to Web sites, is at the heart of many popular Internet destinations. Retailers, media outlets and entertainment sites rely on Flash to make their sites interactive and to serve up advertisements.



But Microsoft has recently launched a new version of its competing Silverlight technology and has been aggressively courting the operators of popular Web sites and advertising agencies that are Adobe's core customers.

Netflix Inc. recently said it would use Silverlight to stream movies over the Internet. When CBS Corp.'s college sports group decided to build its Web site using Silverlight earlier this year, Microsoft chipped in free development and support that "reduced our costs tremendously," said Tom Buffolano, the CBS business unit's former chief. A CBS spokesman declined to comment.

Winning the war with Microsoft "is clearly the most important priority," said Adobe Chief Executive Shantanu Narayan.

The economic downturn is adding to Adobe's challenges. The company Tuesday said its net income rose 11% for the quarter ended Nov. 28, but revenue growth stalled. Sales were \$915.3 million, little changed from a year ago and below Adobe's original targets. Adobe is forecasting revenue for the current quarter will decline about 5% to 10%. Earlier this month, Adobe said it would cut 600 jobs, or 8% of its work force.

Microsoft sees opportunity in the economic pressures on Adobe. "I'm sure that we will gain ground technologically," said Bob Muglia, senior vice president of the Microsoft unit responsible for Silverlight.

Adobe's Flash player is installed on about 98% of Internet-connected PCs, and Silverlight is only installed on about 25%, according to Adobe and Microsoft. Adobe executives said this gives the smaller company about a two-year head start. But Microsoft is "willing to invest" in order to win certain "trophy sites," said Mr. Muglia.

Earlier this year, for instance, General Electric Co.'s NBC Universal chose Silverlight over Flash to deliver video from Beijing Olympics over the Web. Microsoft was an official sponsor of the Democratic National Convention, which streamed video using Silverlight.

Spokeswomen from Microsoft and Adobe declined to comment on the terms of these deals, as did representatives from the Web sites.

"There's no doubt that Adobe is ahead of Microsoft in terms of features," said Al Hilwa, an analyst at research company IDC. "But winners aren't always picked on merit. Companies strike deals, woo customers, and try to build an ecosystem. Microsoft is very

good at that."

Adobe isn't without wins: In November, MLB.com LLC, the Web site for Major League Baseball, switched to Flash from Silverlight for online video of games.

Last year, Web design firm Cynergy Systems Inc. began using Microsoft tools for the first time to build Internet sites. While Cynergy still uses Adobe technology for 80% of the sites it builds, it uses Silverlight for the other 20% and that work is growing more quickly, said Dave Wolf, Cynergy's vice president of sales and marketing.

While millions of software programmers use Microsoft's tools, the company has little traction among Web designers. Adobe said it is counting in part on loyalty from graphic designers to hold Microsoft at bay.

"It's difficult to find designers who know Silverlight," said Scott Stanfield, chief executive of Vertigo Software Inc., which specializes in building sites with Silverlight. "I can't imagine a more hostile community [to Microsoft] than designers," he said, noting his firm's designers still use software from Adobe to sketch plans for sites before building them with Silverlight.

Adobe is also wooing computer programmers, the majority of whom use Microsoft's tools. Navtrak Inc. built the fleet-management software it sells to trucking companies using Adobe's technology after sending some of its programmers to an Adobe-sponsored training session last year, said Todd Hodges, a Navtrak product manager.

In May, Adobe launched the Open Screen Project, a group of 19 companies -- including Nokia Corp., Qualcomm Inc., and Verizon Communications Inc.'s wireless unit -- to attract developers. The project promises developers that they can build software once -- using Adobe's technology -- and have it run on PCs, mobile phones and televisions.

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