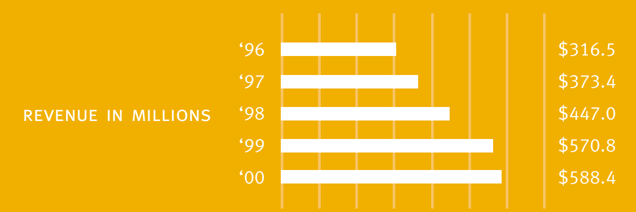
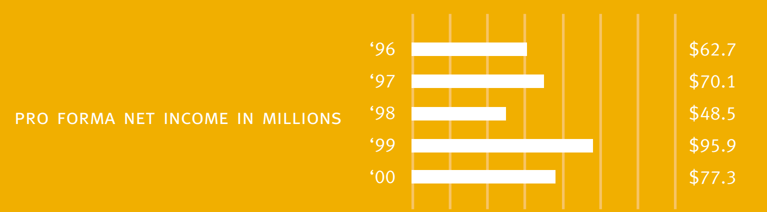
FINANCIAL HIGHLIGHTS





TO OUR **SHAREHOLDERS, CUSTOMERS, EMPLOYEES & FRIENDS:**

Electronics for Imaging was founded in 1989 with a powerful vision: to bring "color everywhere." While 2000 was a challenging year, it was also a rewarding one as we took bold steps that brought us closer than ever to realizing our dream. The highlights of 2000 included increasing our technological leadership by introducing over 50 new products, successfully closing a strategically important acquisition, creating our first venture fund, and completing a stock buyback. Despite these positive actions, EFI was not immune to the economic slowdown and market challenges faced by some of our partners. However, 2000 marked EFI's tenth consecutive year of revenue growth, led by a record number of products shipped. Today, our broad product line provides customers with a variety of solutions to increase efficiency and productivity.

NEW PRODUCTS

A major growth driver for both EFI and our industry is the introduction of new, feature-rich products. In 2000, we expanded our relationships with our OEM partners to introduce over 50 new products with a broad range of features, speeds, and prices. We launched a completely new lineup of Fiery controllers for Canon digital copiers, and announced that in 2001 EFI will supply the controller for the highly anticipated Canon CLC 5000 production-level printer. We also worked with Xerox to introduce the Phaser 1235 corporate color printer—the first system we developed under the Phaser brand with Xerox. This product raises the bar for price and performance in desktop office laser products. At the higher end, we teamed with Xerox to introduce the Fiery EX2000 controller for the successful DocuColor 2060 production-level printer. We also expanded our black-and-white offerings, with new digital copier controllers for both Ricoh and Minolta. Additional new products were introduced during the year with Danka, Epson, Fuji-Xerox, Hewlett-Packard, IKON, Konica, Océ, Sharp and Toshiba, among others.

GROWTH OF COLOR

In 2000 we saw further evidence that color printing capabilities are increasingly important for businesses around the world. We continue to see the proliferation of the Internet driving the growth of our market, as users demand speed and quality when printing colorful Internet pages. As color printers become ever faster and more affordable, and as Internet usage continues to grow rapidly, color will be expected in many types of business documents—in the same way people expect color in movies, television and photographs.

EFI is uniquely positioned to reap the rewards of this accelerating trend. The technology required to print color images is far more complex than the technology used to print black-and-white images. Our ability to provide this technological expertise is a function of our unmatched knowledge in the areas of compression technology, color science, networking, and operating systems. It is a direct result of our ongoing strong R+D investment—in excess of a quarter billion dollars spent since 1997.

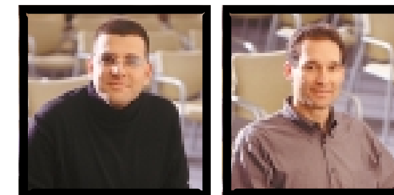
STRATEGIC INITIATIVES

Our acquisition of Splash also strengthens our leadership in networked color printing. EFI's technological expertise, coupled with Splash digital imaging technology, is allowing us to further penetrate the graphic arts market with high-quality color products meeting a greater range of user requirements. Our combined engineering expertise will fuel exciting new opportunities in 2001 and beyond.

We also took steps to further our growth with other products, including software, where we expanded the breadth of our Velocity™ workflow software product line. We also established important partnerships for our eBeam Internet whiteboard appliance, which we introduced in late 1999. This past year, we partnered with PictureTel to combine the capabilities of whiteboards, the Internet and video conferencing, and we established eBeam distribution agreements with companies like edding/Legamaster and Boone to penetrate new channels.

Our balance sheet remains strong. After completing a $100 million stock buyback and the cash acquisition of Splash, we entered 2001 with over $365 million in cash and investments. We believe these resources are best utilized by making strategic acquisitions or internally developing new solutions to further leverage our technology. In addition, EFI's new Venture Fund, established in 2000, is being utilized to invest in emerging imaging technologies. We have already announced two initial investments by the Fund.

Although the economic outlook remains uncertain as we enter 2001, we are optimistic about EFI's ability to expand its presence in the imaging area. We have a robust pipeline of new products for introduction this year with most of our key OEM partners, which will drive greater deployment of color printing. At the same time, we are intensifying our focus on opportunities to expand our business, both in the imaging space and other areas that are natural extensions of our technology.



None of today's achievements or future successes would be possible without the dedication and support of our employees. Loyal, creative, hardworking employees are critical to any business, and particularly in growing a technology business. In Silicon Valley and around the world, we are fortunate to have a dedicated and talented workforce with a terrific culture and innovative spirit. We owe our success to them—and are confident about EFI's future due to their skills.

We also thank our shareholders, OEM partners, distributors, and end users for their support and confidence. We look forward to sharing our future success with you, as we continue our drive toward making ubiquitous color a reality.

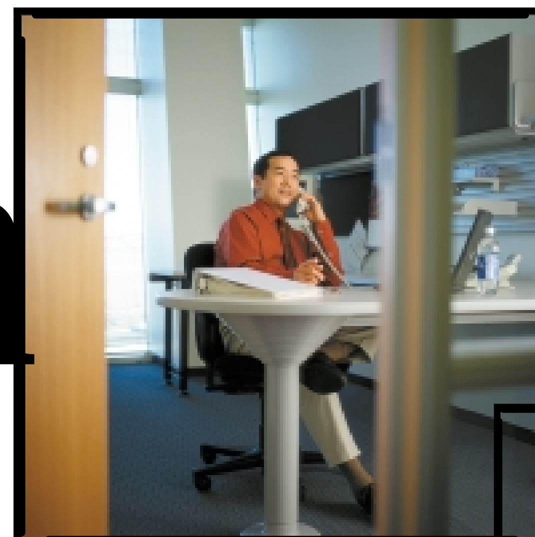
GUY GECHT
CHIEF EXECUTIVE OFFICER

FRED ROSENZWEIG
PRESIDENT + CHIEF OPERATING OFFICER

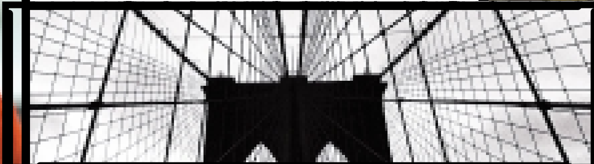
EFI employees are smart. More than 40 percent hold advanced degrees. They're diverse. Walk through EFI's cafeteria and you'll hear conversations in English, French, German, Russian, Vietnamese, Cantonese and more. EFI employees enjoy where they work and they're telling their friends about us. In fact, in 2000 our EFI employee referral rate doubled.

What makes EFI a place where people want to work? EFI is a dynamic yet stable environment that places a high value on open communication, teamwork, creativity, and productivity.

foundation



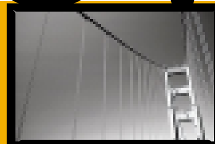
THE FOUNDATION OF ELECTRONICS FOR IMAGING IS OUR PEOPLE. EFI's workforce brings together a multi-talented team of engineers, innovators and problem solvers dedicated to crafting the industry's most robust solutions.

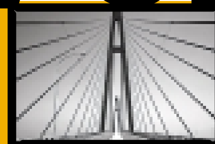


This gives individuals the motivation and opportunity to carve out a career of their own design and the satisfaction of seeing their ideas blossom into world-class technologies and products.

powerful

In 2000, EFI launched dramatic enhancements to our family of print controllers, such as the Fiery X3e, which processes color pages at least four times faster than the Fiery X2e. We also introduced the Velocity brand of workflow software, bringing new levels of efficiency and productivity to printing. And our new version of eBeam is more powerful and easier to use.

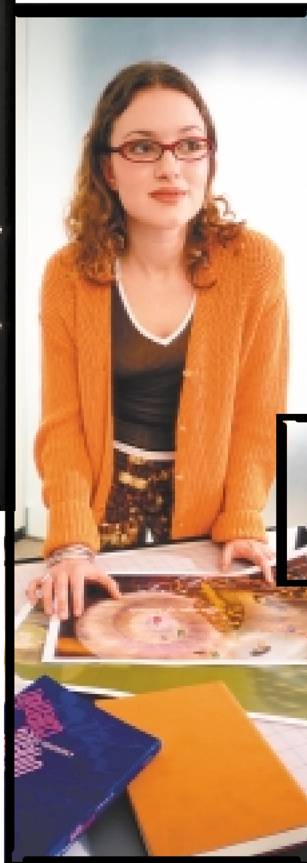




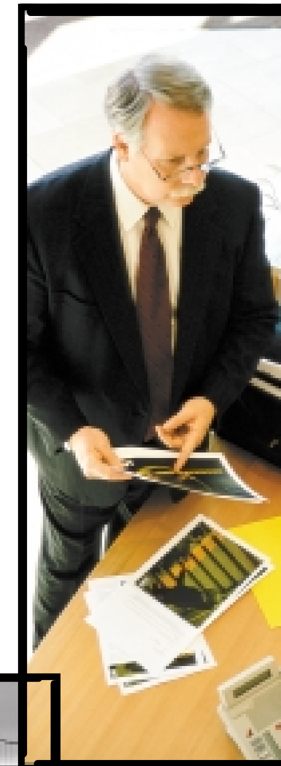
EFI brings ideas to life in dazzling color. Our family of networked printing solutions—EDOX, Fiery, and Splash—gives rich color and form to our customers' thoughts and innovations. eBeam, EFI's Web-enabled Internet whiteboard appliance, helps our customers share their colorful ideas efficiently over the Internet.

All of these products are the result of leveraging our core technologies—building on EFI's key engineering strengths to quickly deliver to market the most powerful, high-quality, digital printing and information delivery solutions in the industry.

Every year, hundreds of companies rely on EFI products to grow their businesses—products that provide vital links from one business step to the next. We offer digital printing and information delivery solutions to large and small companies across a wide range of markets including printing, graphic design, healthcare, retail, architecture, engineering, real estate and more.

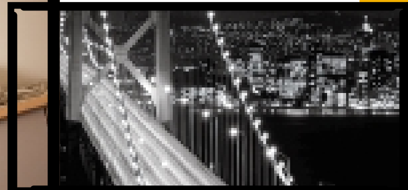


Designers use Fiery products to preview print jobs before spending thousands of dollars at high-capacity print shops. Enterprises use EFI network controllers to share digital copiers and printers across workgroups and departments, producing affordable, high-quality reports, presentations and other business materials in-house.



Print-for-pay businesses use Fiery's advanced color and speed capabilities to successfully compete with offset printing shops. And global enterprises and business travelers use eBeam to instantly share information among team members and move products to market faster.

IN SHORT, EFI PRODUCTS GIVE OUR CUSTOMERS THE COMPETITIVE ADVANTAGE THEY NEED TO EXPAND, ADVANCE AND SUCCEED.



building bridges

TABLE OF CONTENTS

14 SELECTED FINANCIAL DATA

16 MANAGEMENT'S DISCUSSION + ANALYSIS OF FINANCIAL CONDITION + RESULTS OF OPERATIONS

35 REPORT OF INDEPENDENT ACCOUNTANTS

36 FINANCIAL STATEMENTS + SUPPLEMENTARY DATA

41 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

60 QUARTERLY CONSOLIDATED FINANCIAL INFORMATION

62 COMMON STOCK PRICES + DIVIDENDS

63 CORPORATE DIRECTORY + STOCKHOLDER INFORMATION

FINANCIAL HIGHLIGHTS

IN THOUSANDS EXCEPT PER SHARE AMOUNTS	AS OF AND FOR THE YEARS ENDED DECEMBER 31,				
	2000	1999	1998	1997	1996
REVENUE	588,449	570,752	446,999	373,404	316,458
INCOME FROM OPERATIONS	70,269	125,947	60,418	89,644	90,482
PRO FORMA NET INCOME (UNAUDITED)	77,344	95,940	48,487	70,129	62,697
PRO FORMA NET INCOME PER DILUTED COMMON SHARE (UNAUDITED)*	1.38	1.68	.88	1.24	1.13
CASH + INVESTMENTS	367,737	470,328	328,732	246,764	215,781
WORKING CAPITAL	389,917	487,591	355,361	293,972	245,245
TOTAL ASSETS	654,390	656,075	484,191	395,949	310,058
STOCKHOLDERS' EQUITY	545,316	551,187	408,680	346,727	258,105

* See Selected Financial Data (page 15) for discussion of pro forma net income.

The following tables summarize selected consolidated financial data as of, and for the five years ended December 31, 2000. This information should be read in conjunction with the audited consolidated financial statements and related notes thereto.

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS	AS OF AND FOR THE YEARS ENDED DECEMBER 31,				
	2000	1999	1998	1997	1996
OPERATIONS					
Revenue	$588,449	$570,752	$446,999	$373,404	$316,458
Cost of revenue	311,152	290,636	249,179	171,138	155,171
Gross profit	277,297	280,116	197,820	202,266	161,287
Operating expenses					
Research and development	94,097	74,971	60,150	42,868	25,388
Sales and marketing	64,526	59,373	60,615	46,776	34,275
General and administrative	24,784	18,403	16,637	13,578	11,142
Amortization of goodwill and other acquisition-related charges*	23,621	—	—	9,400	—
Merger-related expense**	—	1,422	—	—	—
Total operating expenses	207,028	154,169	137,402	112,622	70,805
Income from operations	70,269	125,947	60,418	89,644	90,482
Other income, net	21,550	16,250	9,859	10,309	7,426
Income before income taxes	91,819	142,197	70,277	99,953	97,908
Provision for income taxes	(37,461)	(46,914)	(22,456)	(35,944)	(35,211)
Net income	$ 54,358	$ 95,283	$ 47,821	$ 64,009	$ 62,697
Net income per basic common share***	$0.99	$1.74	$0.89	$1.21	$1.23
Net income per diluted common share***	$0.97	$1.67	$0.87	$1.13	$1.13
Shares used in computing net income per basic common share***	54,649	54,853	53,507	52,831	51,144
Shares used in computing net income per diluted common share***	55,983	56,963	54,972	56,713	55,338

The table to the right presents pro forma net income ("PFNI") for comparative purposes. PFNI refers to earnings excluding in-process research and development costs expensed at the time of acquisitions and the amortization of acquisition-related intangibles. Acquisition-related intangibles include goodwill, acquired technology, acquired trademarks and trade names, and acquired workforce-in-place. EFI presents PFNI as a measure of our operating results, however, PFNI is not intended to replace operating income or net income as an indicator or operating performance because PFNI is not a concept under generally accepted accounting principles.

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS	AS OF AND FOR THE YEARS ENDED DECEMBER 31,				
	2000	1999	1998	1997	1996
PRO FORMA OPERATIONS, (UNAUDITED)					
Net income	$ 54,358	$ 95,283	$ 47,821	$ 64,009	$ 62,697
Pro forma adjustments, net of tax effect****	22,986	657	666	6,120	—
Pro forma net income	$ 77,344	$ 95,940	$ 48,487	$ 70,129	$ 62,697
Pro forma net income per diluted common share	$1.38	$1.68	$0.88	$1.24	$1.13
Shares used in computing net income per diluted common share***	55,983	56,963	54,972	56,713	55,338
FINANCIAL POSITION					
Cash and short-term investments	$353,603	$470,328	$328,732	$246,764	$215,781
Working capital	389,917	487,591	355,361	293,972	245,245
Long term liabilities, less current portion	3,140	3,467	4,142	4,267	398
Total assets	654,390	656,075	484,191	395,949	310,058
Stockholders' equity	$545,316	$ 551,187	$408,680	$346,727	$258,105
RATIOS AND BENCHMARKS					
Current ratio	4.7	5.8	6.0	7.5	5.8
Inventory turns	13.2	20.5	11.6	8.3	11.5
Full-time employees	895	758	660	614	456

* See Note 2 of notes to Consolidated Financial Statements.

** The Company incurred approximately $1.4 million of non-recurring expenses related to the merger with Management Graphics, Inc. in 1999.

*** See Note 1 of Notes to Consolidated Financial Statements.

**** Pro forma adjustments consist of: in-process research and development costs of $20,300 related to Splash, acquired October 2000 and amortization of goodwill and other purchased intangibles of $3,333 related to Splash and Pipeline Associates, Inc., acquired October 1997, net of tax benefit of $647 for the year ending December 31, 2000; amortization of goodwill and other purchased intangibles of $980 for the years ending December 31, 1999 and 1998, net of tax benefits of $323 and $314, respectively; and in-process research and development costs of $9,400 and amortization of goodwill and other purchased intangibles of $163, net of tax benefit of $3,443 at December 31, 1997.

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements and related notes thereto included in this Annual Report on Form 10-K.

All assumptions, anticipations, expectations and forecasts contained herein are forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those discussed here. For a discussion of the factors that could impact the Company's results, readers are referred to the section below entitled "Factors that Could Adversely Affect Performance."

RESULTS OF OPERATIONS

The following tables set forth items in the Company's consolidated statements of income as a percentage of total revenue for 2000, 1999 and 1998, and the year-to-year percentage change from 2000 over 1999 and from 1999 over 1998, respectively. These operating results are not necessarily indicative of results for any future period.

RESULTS OF OPERATIONS

YEARS ENDED DECEMBER 31,				% CHANGE	
	2000	1999	1998	2000 OVER 1999	1999 OVER 1998
Revenue	100%	100%	100%	3%	28%
Cost of revenue	53%	51%	56%	7%	17%
Gross profit	47%	49%	44%	(1)%	42%
Research and development	16%	13%	13%	26%	25%
Sales and marketing	11%	11%	13%	9%	(2)%
General and administrative	4%	3%	4%	35%	11%
Amortization of goodwill and other acquisition-related charges	4%	—%	—%	100%	—%
Merger-related expenses	—%	—%	—%	—%	—%
Operating expenses	35%	27%	30%	34%	12%
Income from operations	12%	22%	14%	(44)%	108%
Other income, net	4%	3%	2%	33%	65%
Income before income taxes	16%	25%	16%	(35)%	102%
Provision for income taxes	6%	8%	5%	(20)%	109%
Net income	10%	17%	11%	(43)%	99%

REVENUE

The Company's revenue in 2000 was principally derived from three major categories. The first category was made up of stand-alone servers that connect digital color copiers with computer networks. This category includes the Fiery X2, X4, ZX and Z4 products and accounted for a majority of the Company's revenue prior to 1999. The second category consisted of embedded desktop controllers, bundled color solutions and chipsets primarily for the office market. The third category consisted of controllers for digital black-and-white products.

The following is a breakdown of revenue in dollars and volumes as a percentage of total units shipped by category.

REVENUE

IN THOUSANDS	2000 REVENUE		1999 REVENUE		1998 REVENUE		% CHANGE 2000 OVER 1999	% CHANGE 1999 OVER 1998
Stand-alone servers connecting to digital color copiers	$268,436	46%	$244,028	43%	$291,785	66%	10%	(16)%
Embedded desktop controllers, bundled color solutions and chipset solutions	129,277	22%	149,899	26%	90,133	20%	(14)%	66%
Controllers for digital black-and-white solutions	130,780	22%	121,071	21%	19,196	4%	8%	531%
Spares, licensing and other misc. sources	59,956	10%	55,754	10%	45,885	10%	8%	22%
Total revenue	$588,449	100%	$570,752	100%	$446,999	100%	3%	28%

VOLUME

	2000 VOLUME	1999 VOLUME	1998 VOLUME
Stand-alone servers connecting to digital color copiers	16%	14%	27%
Embedded desktop controllers, bundled color solutions and chipset solutions	48%	50%	62%
Controllers for digital black-and-white solutions	32%	36%	11%
Spares, licensing and other misc. sources	4%	—	—
Total volume	100%	100%	100%

Revenue increased to $588.4 million in 2000, compared to $570.8 million in 1999 and $447.0 million in 1998, which yielded a 3% increase in 2000 as compared to 1999 and a 28% increase in 1999 as compared to 1998. The corresponding unit volume increased by 20% in 2000 over 1999 and by 75% in 1999 over 1998. The increase in revenue in 2000 from 1999 and in 1999 from 1998 was primarily due to increases in unit volumes and positive market acceptance of new product introductions, partially offset by a decline in average selling prices due to changes in product mix. The small sequential increase in 2000 from 1999 compared to the increase from 1999 over 1998 was due to delays in OEM partner product launches, disruption in distribution channels due to financial and operating constraints in the imaging market and worsening general economic conditions

The category of stand-alone servers made up 46% of total revenue and 16% of total unit volume in 2000. The increase in revenue over 1999 was driven by introduction of new products by our OEM partners. It made up 43% of total revenue and 14% of total unit volume in 1999 and 66% of total revenue and 27% of total unit volume in 1998. The products in this category continue to offer higher margins relative to the other product lines. As products that were previously only offered with the stand-alone servers are now offered with embedded controllers, some of the volume in this category will transition to the embedded category. The desktop product category made up 22% of total revenue and 48% of total unit volume in 2000. It made up 26% of total revenue and 50% of total unit volume in 1999 and 20% of total revenue and 62% of total unit volume in 1998. The decline from 1999 in absolute dollars in this category was primarily the result of product transitions. As OEM partners planned to move to new platforms, sales of existing products declined. These products, except for the chipset solutions, are also generally characterized by much higher unit volumes but lower unit prices and associated margins than the Company has experienced in its more traditional stand-alone server line of products. The chipset solutions can be characterized by lower unit prices but significantly higher per unit margins compared to the traditional stand-alone server line of products. The black-and-white product category made up 22% of total revenue and 32% of total unit volume in 2000. This category, first introduced in 1998, has seen continued growth, with 21% of the revenue and 36% of the volume in 1999 and only 4% of the revenue and 11% of the unit volume in 1998. This product category can be characterized by much higher unit volumes and lower unit prices and associated margins than the Company has experienced in its more traditional stand-alone server line of products. The Company anticipates further growth in the black-and-white as well as in the desktop category as a percentage of total revenue. To the extent these categories do not grow over time in absolute terms, or if the Company is not able to meet demand for higher unit volumes, it could have a material adverse effect on the Company's operating results. There can be no assurance that the new products for 2001 will be qualified by all the OEMs, or that they will successfully compete, or be accepted by the market, or otherwise be able to effectively replace the volume of revenue and / or income from the older products.

The Company also believes that in addition to the factors described above, price reductions for all of its products may affect revenues in the future. The Company has made and may in the future make price reductions for its products. Depending upon the price-elasticity of demand for the Company's products, the pricing and quality of competitive products, and other economic and competitive conditions, such price reductions may have an adverse impact on the Company's revenues and profits. If the Company is not able to compensate for lower gross margins that may result from price reductions with an increased volume of sales, its results of operations could be adversely affected. In addition, if the Company's revenue in the future depends more upon sales of products with relatively lower gross margins than the Company obtained in 2000 (such as embedded controllers for printers, embedded controllers for color and black-and-white copiers, and stand-alone controllers for black-and-white copiers), results of operations may be adversely affected.

Shipments by geographic area for the years ended December 31, 2000, 1999 and 1998 were as follows:

YEARS ENDED DECEMBER 31,							% CHANGE	
IN THOUSANDS	2000		1999		1998		2000 OVER 1999	1999 OVER 1998
North America	$ 291,679	50%	$277,997	49%	$ 221,638	50%	5%	25%
Europe	191,403	32%	182,602	32%	144,076	32%	5%	27%
Japan	85,983	15%	90,781	16%	68,991	15%	(5)%	32%
Rest of World	19,384	3%	19,372	3%	12,294	3%	0%	58%
	$588,449	100%	$570,752	100%	$446,999	100%	3%	28%

While shipments to North America and Europe saw a 5% increase in 2000 over 1999, Japan saw a decrease of 5% and the Rest of World Region, primarily Asia Pacific, remained flat. The Asia Pacific and Japan drop in revenue stems from increasing sales of low end products as well as the continuing difficult economic times in these regions. Worldwide economic conditions may have an adverse impact on the Company's results of operations in the future.

As shipments to some of the Company's OEM partners are made to centralized purchasing and manufacturing locations which in turn sell through to other locations, the Company believes that export sales of its products into each region may differ from what is reported, though accurate data is difficult to obtain. The Company expects that export sales will continue to represent a significant portion of its total revenue.

Substantially all of the revenue for the last three years was attributable to sales of products through the Company's OEM channels with such partners as Canon, Encad, Epson, Fuji-Xerox, IBM, Hewlett-Packard, Kodak/Danka Business Systems, Konica, Lanier, Minolta, Océ, Ricoh, Sharp, Xerox and others. During 2000, the Company has continued to work on both increasing the number of OEM partners, and expanding the size of existing relationships with OEM partners. The Company relied on three OEM customers, Canon, Xerox and Ricoh in aggregate for 70%, 68%, and 67% of its revenue for 2000, 1999 and 1998, respectively. In the event that any of these OEM relationships are scaled back or discontinued, the Company may experience a significant negative impact on its consolidated financial position and results of operations. In addition, no assurance can be given that the Company's relationships with these OEM partners will continue.

The Company continues to work on the development of products utilizing the Fiery, Splash and EDOX architecture and other products and intends to continue to introduce new generations of server and controller products and other new product lines with current and new OEM's in 2001 and beyond. No assurance can be given that the introduction or market acceptance of new, current or future products will be successful.

COST OF REVENUE

The Company's color servers as well as embedded desktop controllers and digital black-and-white products are manufactured by third-party manufacturers who purchase most of the necessary components. The Company sources directly processors, memory, certain ASICs, and software licensed from various sources, including PostScript interpreter software, which the Company licenses from Adobe Systems, Inc.

GROSS MARGINS

The Company's gross margin was 47%, 49% and 44% for 2000, 1999 and 1998 respectively. The decrease in gross margin from 49% to 47% from 1999 to 2000 was primarily due to a higher mix of low-end products with relatively lower margins as well as increased component costs in the volatile components market experienced throughout most of 2000. The increase in gross margin from 44% to 49% from 1998 to 1999 was attributable to volume driven economies of scale as well as increased outsourcing of manufacturing operations to lower cost subcontract manufacturers.

The Company expects that sales of products with relatively lower margins may further increase as a percentage of revenue. Such products include embedded products for both desktop printers and copiers, stand-alone servers, embedded controllers for black-and-white copiers and older products for which prices are reduced during product transitions. If such sales increase as a percentage of the Company's revenue, gross margins may decline.

In general, the Company believes that gross margins will continue to be impacted by a variety of factors. These factors include the market prices that can be achieved on the Company's current and future products, the availability and pricing of key components (including DRAM, Processors and Postscript interpreter software), third party manufacturing costs, product, channel and geographic mix, the success of the Company's product transitions and new products, competition, and general economic conditions in the United States and abroad. Consequently, the Company anticipates gross margins will fluctuate from period to period.

In addition to the factors affecting revenue described above, the Company expects to be subject to pressures to reduce prices, and as a result, gross margins for all of its products may be lower and therefore the Company's ability to maintain current gross margins may not continue.

OPERATING EXPENSES

Operating expenses increased by 34% in 2000 over 1999 and by 12% in 1999 over 1998. Operating expenses as a percentage of revenue amounted to 35%, 27% and 30% for 2000, 1999 and 1998, respectively. Increases in operating expenses in absolute dollars of $29.2 million before the amortization of goodwill and other acquisition-related charges in 2000 compared to 1999 and $16.8 million in 1999 compared to 1998, were primarily caused by costs associated with the development and introduction of new products and the hiring of additional full time employees to support the growing business (a net increase of 137 people at December 31, 2000 over December 31, 1999 and a net increase of 98 people at December 31, 1999 over December 31, 1998). The Company hired additional employees to support product development as well as to support expanded operations, including new operations and functions being performed in The Netherlands.

Operating expenses for 2000 included approximately $23.6 million of acquisition-related costs and the amortization of goodwill and other intangibles in connection with the acquisition of Splash in October 2000. In 1999 the Company incurred $1.4 million of merger-related expenses associated with the merger of MGI. In addition, the Company incurred additional non-recurring expenses during 1999 in connection with the Company's move to a new central facility in Foster City, California. Total moving costs amounted to $1.8 million of which approximately $0.2 million related to cost of revenue.

The Company anticipates that operating expenses will continue to grow and may increase both in absolute dollars and as a percentage of revenue.

The components of operating expenses are detailed below.

Research and Development

Expenses for research and development consist primarily of personnel expenses and, to a lesser extent, consulting, depreciation and costs of prototype materials. Research and development expenses were $94.1 million or 16% of revenue in 2000 compared to $75.0 million or 13% of revenue in 1999 and $60.2 million or 13% of revenue in 1998. The year over year increase in research and development expenses was mainly due to an increase in research and development projects. The majority of the 26% increase in research and development expenses in 2000 compared to 1999 and in 1999 compared to 1998 was due to a 23% and 21% growth, respectively, in engineering headcount. The Company believes that the development of new products and the enhancement of existing products are essential to its continued success, and intends to continue to devote substantial resources to research and product development efforts. Accordingly, the Company expects that its research and development expenses may continue to increase in absolute dollars and also as a percentage of revenue.

Sales and Marketing

Sales and marketing expenses include personnel expenses, costs for trade shows, marketing programs and promotional materials, sales commissions, travel and entertainment expenses, depreciation, and costs associated with sales offices in the United States, Europe, Japan and other locations around the world. Sales and marketing expenses for 2000 were $64.5 million or 11% of revenue compared to $59.4 million or 11% of revenue in 1999 and $60.6 million or 13% in 1998. Sales and marketing expenses showed no change in 2000 over 1999 as a percentage of revenue. The nominal increase in absolute dollars is primarily due to the broader product line the company now supports offset by continued efforts to control spending across the Company during 2000. In addition the gravitation toward desktop and embedded products require less support from the Company as the OEM's take over some of the financial responsibilities for the support. The decrease of sales and marketing expenses in 1999 over 1998 is primarily due to tightly controlled spending, offset by a 12% increase in headcount.

The Company expects that its sales and marketing expenses may increase in absolute dollars and possibly also as a percentage of revenue as it continues to actively promote its products, launch new products and continue to build its sales and marketing organization, particularly in Europe and Asia Pacific, including Japan. This expected increase might not proportionally increase with increases in volume if the Company's sales continue to gravitate toward desktop and embedded products which require less support from the Company as the OEM partners take over this role.

General and Administrative

General and administrative expenses consist primarily of personnel expenses and, to a lesser extent, depreciation and facility costs, professional fees and other costs associated with public companies. General and administrative expenses were $24.8 million or 4% of revenue in 2000, compared to $18.4 million or 3% of revenue in 1999 and $16.6 million or 4% of revenue in 1998. While general and administrative expenses have remained relatively constant as a percentage of total revenue over the three-year period ended 2000, these expenses have increased in absolute dollars. The increases in 2000 over 1999 and in 1999 over 1998 were primarily due to the increase in headcount to support the needs of the growing Company's operations, including a growing business development department, the establishment of a Dutch transaction processing center which now handles the majority of the Company's international business and higher legal costs to register and defend our intellectual property. The Company expects that its general and administrative expenses may continue to increase in absolute dollars and possibly also as a percentage of revenue in order to support the Company's efforts to grow its business.

Amortization of goodwill and acquisition-related charges

In October of 2000, the Company acquired Splash for approximately $83.8 million, net of cash received. The acquisition was intended to expand the Company's product line and further increase the Company's market share, primarily in the graphic arts arena. In conjunction with the acquisition, the Company recorded a charge of $20.3 million for in-process research and development. Amortization of goodwill and other intangibles related to acquisition were $3.3 million for the year ended December 31, 2000. At December 31, 2000 the unamortized portion of goodwill and other intangibles totaled $76.3 million and will be amortized over estimated lives ranging from 4 to 7 years.

Merger-related expenses

On August 31, 1999 the Company merged with MGI, a Minnesota-based corporation that develops digital print on demand products and other digital imaging products through a pooling-of-interests transaction. The Company incurred approximately $1.4 million of non-recurring expenses related to the merger, which consisted primarily of professional fees, severance costs, and travel expenses.

Other Income

Other income relates mainly to interest income and expense, and gains and losses on foreign currency transactions. Other income of $21.6 million in 2000 increased by 33% from $16.3 million in 1999. Other income of $16.3 million in 1999 increased by 65% from $9.9 million in 1998. The increase in 2000 from 1999 and in 1999 from 1998 is due to an increase in the average investment balance as well as a higher return on investments as a result of more favorable market interest rates in 2000 compared to 1999.

Income Taxes

The Company's pro forma effective tax rate, excluding the effect of non-deductible in-process technology and goodwill, was 33% in 2000, while the actual tax rate was 40.8%. In 1999 and 1998, the actual effective tax rate was 33% and 32%, respectively. In each of these years, the Company benefited from tax-exempt interest income, a foreign sales corporation, and the utilization of the research and development credits in achieving a consolidated effective tax rate lower than that prescribed by the respective Federal and State taxing authorities. The Company anticipates that the pro forma effective tax rate for 2001 will remain approximately 33%.

Liquidity and Capital Resources

Cash, cash equivalents and short-term investments decreased by $116.7 million to $353.6 million as of December 31, 2000, from $470.3 million as of December 31, 1999. Working capital decreased

by $97.7 million to $389.9 million as of December 31, 2000, down from $487.6 million as of December 31, 1999. These decreases are primarily the result of the repurchase of approximately $100.0 million of the Company's common stock during 2000. In addition, the Company has classified $14.1 million as restricted investments as of December 31, 2000. These funds collateralize the 1999 Lease discussed below.

Net cash provided by operating activities was $76.5 million, $131.5 million and $81.1 million in 2000, 1999 and 1998, respectively. Cash provided by operating activities decreased in 2000 primarily due to a decrease in net income and an increase in deferred income taxes and inventories.

The Company has continued to invest cash in short-term investments, mainly municipal securities. Sales in excess of purchases of short-term investments were $57.5 million in 2000, while purchases in excess of sales were $38.0 million and $84.3 million in 1999 and 1998, respectively. The Company's capital expenditures generally consist of investments in computers and related peripheral equipment and office furniture for use in the Company's operations. The Company purchased approximately $15.5 million, $15.6 million and $13.2 million of such equipment and furniture during 2000, 1999 and 1998, respectively. During 2000 the Company invested $83.8 million, net of cash received, in the acquisition of Splash.

In 1997, the Company began development of a corporate campus on a 35-acre parcel of land in Foster City, California. During 1997 and 1998 the Company spent approximately $27.3 million on the land and associated improvement costs. In addition to purchasing the land, the Company entered into an agreement ("1997 Lease") to lease a ten-story 295,000 square foot building to be constructed on the site. The lessor of the building funded $56.8 million for the construction of the building. In July 1999 the Company completed construction of the building and began making rent payments. Also in conjunction with the lease, the Company has entered into a separate ground lease with the lessor of the building for approximately 35 years.

In December 1999 the Company entered into a second agreement ("1999 Lease") to lease a maximum of 543,000 square feet of additional facilities, to be constructed adjacent to the first building discussed above. As of December 31, 2000 the lessor has funded $13.4 million of a maximum commitment of $137.0 million for the construction of the facilities, with the portion of the committed amount actually used for construction to be determined by the Company. Rent obligations for the building will bear a direct relationship to the carrying cost of the commitments drawn down. Construction of the facilities began in January 2000 and is scheduled for completion over the next 36 months. In connection with the lease, the Company entered into a lease of the related parcels of land in Foster City to the lessor of the buildings at a nominal rate and for a term of 30 years. If the Company does not renew the building lease, the ground lease converts to a market rate.

Both leases have an initial term of seven years, with options to renew subject to certain conditions. The Company may, at its option, purchase the facilities during or at the end of the term of the lease for the amount expended by the respective lessor to construct the facilities. The Company has guaranteed to the lessors a residual value associated with the buildings equal to approximately 82% of the their funding. The Company may be liable to the lessor for the amount of the residual guarantee if it either defaults on a covenant, fails to renew the lease, or does not purchase or locate a purchaser for the leased building at the end of the lease term. During the term of the leases the Company must maintain a minimum tangible net worth. In addition, the Company has pledged certain marketable securities, which are in proportion to the amount drawn under each lease. Under the 1997 Lease, the pledged collateral ($70.2 million at December 31, 2000) may be withdrawn at any time, but withdrawal results in an increase to the lease rate and the imposition of additional financial covenant restrictions. The funds pledged under the 1999 Lease ($14.1 million at December 31, 2000) may be invested by the Company in certain securities, however the funds are restricted as to withdrawal at all times.

Net cash used in financing activities of $82.5 million in 2000 was primarily the difference between the $100.0 million used to repurchase common stock and the cash received from exercises of common stock options, net of the tax benefits associated with the exercises. Net cash provided by financing activities of $26.7 million and $14.2 million in 1999 and 1998, respectively, were primarily the result of exercises of common stock options and the tax benefits to the Company associated with those exercises. Net cash provided by financing activities in 2000, 1999 and 1998 includes approximately $0.8 million, $0.9 million and $0.1 million of cash used to repay long-term obligations.

The Company's inventory consists primarily of memory subsystems, processors and ASICs, which are sold to third-party contract manufacturers responsible for manufacturing the Company's products. Should the Company decide to purchase components and do its own manufacturing, or should it become necessary for the Company to purchase and sell components other than the processors, ASICs or memory subsystems for its contract manufacturers, inventory balances and potentially fixed assets would increase significantly, thereby reducing the Company's available cash resources. Further, the inventory the Company carries could become obsolescent thereby negatively impacting the Company's consolidated financial position and results of operations. The Company is also reliant on several sole-source suppliers for certain key components and could experience a further significant negative impact on its consolidated financial position and results of operations if such supply were reduced or not available.

The Company, along with its directors and certain officers and employees, has been named in class action lawsuits filed in both the San Mateo County Superior Court and the United States District Court for the Northern District of California. The lawsuits are all related to the precipitous decline in the trading price of the Company's stock that occurred in December 1997. The Company believes the lawsuits are without merit and intends to contest them vigorously, but there can be no assurance that if damages are ultimately awarded against the Company, the litigation will not adversely affect the Company's results of operations. See Item 3 "Legal proceedings."

Splash, along with former Splash officers were named in class action lawsuits filed in the United States District Court for the Northern District of California. The lawsuits are related to a decline in Splash's stock price during 1997. The Company became successor to the lawsuits when it acquired Splash in October 2000. The Company believes the lawsuits are without merit and intends to contest them vigor-

ously, but there can be no assurance that if damages are ultimately awarded against the Company, the litigation will not adversely affect the Company's results of operations. See Item 3 "Legal proceedings."

The Company believes that its existing capital resources, together with cash generated from continuing operations will be sufficient to fund its operations and meet capital requirements through at least 2000.

EURO ASSESSMENT

Eleven of the fifteen member countries of the European Union have established fixed conversion rates between their existing sovereign currencies and the Euro and have adopted the Euro as a common currency as of January 1, 1999. The Euro is trading on currency exchanges and is available for non-cash transactions. The conversion to the Euro is not expected to have a material adverse effect on the operating results of the Company as the Company predominantly invoices in US Dollars. The Company is currently in the process of evaluating the reporting requirements in the respective countries and the related system, legal and taxation requirements. The Company expects that required modifications will be made on a timely basis and that such modifications will not have a material adverse impact on the Company's operating results. There can be no assurance; however, the Company will be able to complete such modifications to comply with Euro requirements. Failure to comply Euro requirements could have a material adverse effect on the Company's operating results.

FACTORS THAT COULD ADVERSELY AFFECT PERFORMANCE

Our performance may be adversely affected by the following factors:

WE RELY ON SALES TO A RELATIVELY SMALL NUMBER OF OEM PARTNERS, AND THE LOSS OF ANY OF THESE CUSTOMERS COULD SUBSTANTIALLY DECREASE OUR REVENUES

Because we sell our products primarily to our OEM partners, we rely on high sales volumes to a relatively small number of customers. We expect that we will continue to depend on these OEM partners for a significant portion of our revenues. If we lose an important OEM or we are unable to recruit additional OEMs, our revenues may be materially and adversely affected. We cannot assure you that our major customers will continue to purchase our products at current levels or that they will continue to purchase our products at all. In addition, our results of operations could be adversely affected by a decline in demand for copiers or laser printers, other factors affecting our major customers, in particular, or the computer industry in general. Xerox, our second largest customer, has experienced serious financial difficulties in their business over the past year. If Xerox continues to face such difficulties, our short-term revenues and profitability could be materially and adversely affected through, among other things, decreased sales volumes and write-offs of accounts receivables and inventory related to Xerox products.

We rely upon our OEM partners to develop new products, applications and product enhancements in a timely and cost-effective manner. Our continued success depends upon the ability of these OEMs to meet changing customer needs and respond to emerging industry standards and other technological changes. However, we cannot assure you that our OEMs will effectively meet these technological challenges. These OEMs, who are not within our control, may incorporate into their products the technologies of other companies in addition to, or instead of our products. These OEMs may introduce and support products that are not compatible with our products. We rely on these OEMs to market our products with their products, and if these OEMs do not effectively market our products our sales revenue may be materially and adversely affected. With the exception of certain minimum purchase obligations, these OEMs are not obligated to purchase products from us. We cannot assure you that our OEMs will continue to carry our products.

Our OEMs work closely with us to develop products that are specific to each OEM's copiers and printers. For many of the products we are developing, we need to coordinate development, quality testing, marketing and other tasks with our OEMs. We cannot control our OEMs' development efforts and coordinating with our OEMs may cause delays that we cannot manage by ourselves. In addition, our sales revenue and results of operations may be adversely affected if we cannot meet our OEM's product needs for their specific copiers and printers, as well as successfully manage the additional engineering and support effort and other risks associated with such a wide range of products.

We are pursuing, and will continue to pursue, the business of additional copier and printer OEMs. However, because there are a limited number of OEMs producing copiers and printers in sufficient volume to be attractive customers for us, we expect that customer concentration will continue to be a risk.

IF WE ARE UNABLE TO DEVELOP NEW PRODUCTS, OR EXECUTE PRODUCT INTRODUCTIONS ON A TIMELY BASIS, OUR FUTURE REVENUE AND OPERATING RESULTS MAY BE HARMED.

Our operating results will depend to a significant extent on continual improvement of existing technologies and rapid innovation of new products and technologies. Our success depends not only on our ability to predict future requirements, but also to develop and introduce new products that successfully address customer needs. Any delays in the launch or availability of new products we are planning could harm our financial results. During transitions from existing products to new products, customers may delay or cancel orders for existing products. Our results of operations may be adversely affected if we cannot successfully manage product transitions or provide adequate availability of products after they have been introduced.

In this environment, we must continue to make significant investments in research and development in order to enhance performance and functionality of our products, including product lines different than our Fiery servers and embedded controllers. We cannot assure you that we will successfully identify new product opportunities, develop and introduce new products to market in a timely manner, and achieve market acceptance of our products. Also, if we decide to develop new products, our research and development expenses may increase in the short term without a corresponding increase in revenue. Finally, we cannot assure you that products and technologies developed by others will not render our products or technologies obsolete or noncompetitive.

WE LICENSE SOFTWARE USED IN MOST OF OUR PRODUCTS FROM ADOBE SYSTEMS INCORPORATED, AND THE LOSS OF THIS LICENSE WOULD PREVENT US FROM SHIPPING THESE PRODUCTS

Under our license agreements with Adobe, a separate license must be granted from Adobe to us for each type of copier or printer used with a Fiery Server or Controller. If Adobe does not grant us such licenses or approvals, if the Adobe license agreements are terminated, or if our relationship with Adobe is otherwise impaired, our financial condition and results of operations may be harmed. To date, we have successfully obtained licenses to use Adobe's PostScript™ software for our products, where required. However, we cannot assure you that Adobe will continue to grant future licenses to Adobe PostScript software on reasonable terms, in a timely manner, or at all. In addition, we cannot assure you that Adobe will continue to give us the quality assurance approvals we are required to obtain from Adobe for the Adobe licenses.

IF THE DEMAND FOR PRODUCTS THAT ENABLE COLOR PRINTING OF DIGITAL DATA DECREASES, OUR SALES REVENUE MAY DECREASE

Our products are primarily targeted at enabling the color printing of digital data. If demand for this service declines, or if the demand for our OEM's specific printers or copiers that our products are designed for should decline, our sales revenue may be adversely affected. Although demand for networked color printers and copiers has increased in recent years, we cannot assure you that such demand will continue, nor can we control whether the demand will continue for the specific OEM printers and copiers that utilize our products will continue. We believe that demand for our products may also be affected by a variety of economic conditions and considerations, and we cannot assure you that demand for our products will continue at current levels.

IF WE ENTER NEW MARKETS OR DISTRIBUTION CHANNELS THIS COULD RESULT IN DELAYED REVENUES OR HIGHER OPERATING EXPENSES

We continue to explore opportunities to develop product lines different from our servers and embedded controllers, such as our new line of software products and EFI Professional Services that we announced in February 2000. We expect to invest funds to develop new distribution and marketing channels for these new products and services. We do not know if we will be successful in developing these channels or whether the market will accept any of our new products or services. In addition, even if we are able to introduce new products or services, the lack of marketplace acceptability of these new products or services may adversely impact the Company's operating results.

We sell products that are large capital expenditures as well as discretionary purchase items. In difficult economic times, such as the current economic climate, spending on information technology is often decreased. As our products are of a more discretionary nature than many other technology products, we may be more adversely impacted than other technology firms. We are subject to economic sensitivity that could harm our results of operations.

WE FACE COMPETITION FROM OTHER SUPPLIERS AS WELL AS OUR OWN OEM CUSTOMERS, AND IF WE ARE NOT ABLE TO COMPETE SUCCESSFULLY THEN OUR BUSINESS MAY BE HARMED

Our industry is highly competitive and is characterized by rapid technological changes. We compete against a number of other suppliers of imaging products. We cannot assure you that products or technologies developed by competing suppliers will not render our products or technologies obsolete or noncompetitive.

While many of our OEM's sell our products on an exclusive basis, we do not have any formal agreements that prevent the OEMs from offering alternative products. If an OEM offers products from alternative suppliers our market share could decrease, which could reduce our revenue and negatively affect our financial results.

Our OEM partners may themselves internally develop and supply products similar to our current products. These OEMs may be able to develop similar products that are compatible with their own products more quickly than we can. These OEMs may choose to market their own products, even if these products are technologically inferior, have lower performance or cost more. We cannot assure you that we will be able to continue to successfully compete against similar products developed internally by our OEMs or against their financial and other resources. If we cannot compete successfully against our OEMs' internally developed products, our business may be harmed.

IF WE ARE NOT ABLE TO HIRE AND RETAIN SKILLED EMPLOYEES, WE MAY NOT BE ABLE TO DEVELOP PRODUCTS OR MEET DEMAND FOR OUR PRODUCTS IN A TIMELY FASHION

We depend upon skilled employees, such as software and hardware engineers, quality assurance engineers and other technical professionals. We are located in the Silicon Valley where competition among companies to hire engineering and technical professionals is intense. It is difficult for us to locate and hire qualified engineers and technical professionals and for us to retain these people. There are many technology companies located nearby that may try to hire our employees. The movement of our stock price may also impact our ability to hire and retain employees. If we do not offer competitive compensation, we may not be able to recruit or retain employees. If we cannot successfully hire and retain employees, we may not be able to develop products timely or to meet demand for our products in a timely fashion and our results of operations may be adversely impacted.

OUR OPERATING RESULTS MAY FLUCTUATE BASED UPON MANY FACTORS, WHICH COULD ADVERSELY AFFECT OUR STOCK PRICE

We expect our stock price to vary with our operating results and, consequently, adverse fluctuations in operating results could adversely affect our stock price. Operating results may fluctuate due to:

- varying demand for our products;
- success and timing of new product introductions;
- changes in interest rates and availability of bank or financing credit to consumers of digital copiers and printers;
- price reductions by us and our competitors;
- delay, cancellation or rescheduling of orders;
- product performance;
- availability of key components, including possible delays in deliveries from suppliers;
- the status of our relationships with our OEM partners;
- the performance of third-party manufacturers;
- the status of our relationships with our key suppliers;
- the financial and operational condition of OEM partners and key suppliers
- potential excess or shortage of skilled employees; and
- general economic conditions.

Many or our products, and the related OEM copiers and printers, are purchased utilizing lease contracts or bank financing. If prospective purchasers of digital copiers and printers are unable to obtain credit, or interest rate changes make credit terms undesirable, this may significantly reduce the demand for digital copiers and printers, negatively impacting our revenues and operating results.

Typically we do not have long-term volume purchase contracts with our customers, and a substantial portion of our backlog is scheduled for delivery within 90 days or less. Our customers may cancel orders and change volume levels or delivery times for product they have ordered from us without penalty. However, a significant portion of our operating expenses are fixed in advance, and we plan these expenditures based on the sales forecasts from our OEM customers and product development programs. If we were unable to adjust our operating expenses in response to a shortfall in our sales, it could harm our quarterly financial results.

We attempt to hire additional employees to match growth in projected demand for our products. If we project a higher demand than materializes, we will hire too many employees and incur expenses that we need not have incurred and our financial results may be lower. If we project a lower demand than materializes, we will hire too few employees, we may not be able to meet demand for our products and our sales revenue may be lower. If we cannot successfully manage our growth, our results of operations may be harmed.

THE VALUE OF OUR INVESTMENT PORTFOLIO WILL DECREASE IF INTEREST RATES INCREASE

We have an investment portfolio of mainly fixed income securities classified as available-for-sale securities. As a result, our investment portfolio is subject to interest rate risk and will fall in value if market interest rates increase. We attempt to limit this exposure to interest rate risk by investing primarily in short-term securities. We may be unable to successfully limit our risk to interest rate fluctuations and this may cause our investment portfolio to decrease in value.

OUR STOCK PRICE HAS BEEN AND MAY CONTINUE TO BE VOLATILE

Our common stock, and the stock market generally, have from time to time experienced significant price and volume fluctuations. The market prices for securities of technology companies have been especially volatile, and fluctuations in the stock market are often unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the market price of our common stock. Our common stock price may also be affected by the factors discussed in this section as well as:

- Fluctuations in our results of operations, revenues or earnings or those of our competitors;
- Failure of results of operations, revenues or earnings to meet the expectations of stock market analysts and investors;
- Changes in stock market analysts' recommendations regarding us;
- Real or perceived technological advances by our competitors;
- Financial performance of OEM partners and key suppliers;
- Political or economic instability in regions where our products are sold or used; and
- General market and economic conditions.

WE FACE RISKS FROM OUR INTERNATIONAL OPERATIONS AND FROM CURRENCY FLUCTUATIONS

Approximately 50% of our revenue from the sale of products for the twelve month periods ended December 31, 2000 and December 31, 1999, came from sales outside North America, primarily to Europe and Japan. We expect that sales to international destinations will continue to be a significant portion of our total revenue. You should be aware that we are subject to certain risks because of our international operations. These risks include the regulatory requirements of foreign governments which may apply to our products, as well as requirements for export licenses which may be required for the export of certain technologies. The necessary export licenses may be delayed or difficult to obtain, which could cause a delay in our international sales and hurt our product revenue. Other risks include trade protection measures, natural disasters, and political or economic conditions in a specific country or region.

We believe that economic conditions in other parts of the world, such as Brazil and Japan, may also limit demand for our products. The move to a single European currency, the Euro, and the resulting central bank management of interest rates to maintain fixed currency exchange rates among the member nations may lead to economic conditions which adversely impact sales of our products.

Given the significance of our export sales to our total product revenue, we face a continuing risk from the substantial fluctuations in the value of the U.S. dollar versus the Japanese yen, the Euro and other major European currencies, and numerous Southeast Asian currencies, which could cause lower unit demand and the necessity that we lower average selling prices for our products because of the reduced strength of local currencies. Either of these events could harm our revenues and gross margin. Although we typically invoice our customers in U.S. dollars, when we do invoice our customers in local currencies, our cash flows and earnings are exposed to fluctuations in interest rates and foreign currency exchange rates between the currency of the invoice and the U.S. dollar. We attempt to limit or hedge these exposures through operational strategies and financial market instruments where we consider it appropriate. To date we have mostly used forward contracts to reduce our risk from interest rate and currency fluctuations. However, our efforts to reduce the risk from our international operations and from fluctuations in foreign currencies or interest rates may not be successful, which could harm our financial condition and operating results.

WE MAY BE UNABLE TO ADEQUATELY PROTECT OUR PROPRIETARY INFORMATION

We rely on a combination of copyright, patent, trademark and trade secret protection, nondisclosure agreements, and licensing and cross-licensing arrangements to establish, maintain and protect our intellectual property rights, all of which afford only limited protection. We have patent applications pending in the United States and in various foreign countries. There can be no assurance that patents will issue from these pending applications or from any future applications, or that, if issued, any claims allowed will be sufficiently broad to protect our technology. Any failure to adequately protect our proprietary information could harm our financial condition and operating results. We cannot be certain that any patents that may be issued to us, or

which we license from third parties, or any other of our proprietary rights will not be challenged, invalidated or circumvented. In addition, we cannot be certain that any rights granted to us under any patents, licenses or other proprietary rights will provide adequate protection of our proprietary information.

From time to time, litigation may be necessary to defend and enforce our proprietary rights. Such litigation, whether or not concluded successfully for us, could involve significant expense and the diversion of our attention and other resources.

WE FACE RISKS FROM THIRD PARTY CLAIMS OF INFRINGEMENT AND POTENTIAL LITIGATION

Third parties may claim that our products infringe, or may infringe, their proprietary rights. Such claims could result in lengthy and expensive litigation. Such claims and any related litigation, whether or not we are successful in the litigation, could result in substantial costs and diversion of our resources. Although we may seek licenses from third parties covering intellectual property that we are allegedly infringing, we cannot guarantee that any such licenses could be obtained on acceptable terms, if at all.

SEASONAL PURCHASING PATTERNS OF OUR OEM CUSTOMERS HAVE HISTORICALLY CAUSED LOWER FOURTH QUARTER REVENUE, WHICH MAY NEGATIVELY IMPACT THE STOCK PRICE

Our results of operations have typically followed a seasonal pattern reflecting the buying patterns of our large OEM customers. In the past, our fiscal fourth quarter (the quarter ending December 31) results have been adversely affected because some or all of our OEM customers wanted to decrease, or otherwise delay, fourth quarter orders. In addition, the first fiscal quarter traditionally has been a weaker quarter because our OEM partners focus on training of their sales forces. The primary reasons for this seasonal pattern are:

- Fluctuation in demand for our products from our OEM customers, who have historically sought to minimize year-end inventory investment (including the reduction in demand following introductory “channel fill” purchases). Fluctuation in demand is also caused by timing of new product releases and training by our OEM partners; and
- The fact that our OEM partners have typically achieved their yearly sales goals during the fourth quarter and consequently delayed further purchases into the next fiscal year, and the fact that we do not know when the OEMs reach these sales goals as they generally do not share them with us.

As a result of these factors, we believe that period to period comparisons of our operating results are not meaningful, and you should not rely on such comparisons to predict our future performance. We anticipate that future operating results may fluctuate significantly due to this seasonal demand pattern.

WE MAY MAKE ACQUISITIONS AND ACQUISITIONS INVOLVE NUMEROUS FINANCIAL RISKS

We seek to develop new technologies and products from both internal and external sources. As part of this effort, we may make, and have in the past made, acquisitions of other companies or other companies’ technology assets. Acquisitions involve numerous risks, including the following:

- Difficulties in integration of operations, technologies, or products;
- Risks of entering markets in which we have little or no prior experience, or entering markets where competitors have stronger market positions;
- Possible write-downs of impaired assets; and
- Potential loss of key employees of the acquired company.

Mergers and acquisitions of companies are inherently risky, and we cannot assure you that our previous or future acquisitions will be successful and will not harm our business, operating results, financial condition, or stock price.

WE MAY INCUR LOSSES ON OUR EQUITY INVESTMENTS

We recently announced the creation of a fund to invest in the equity securities of privately held companies, many of which can still be considered in the startup or development stages. These investments are inherently risky as the market for the technologies or products they have under development are typically in the early stages and may never materialize. We could lose a substantial part of or our entire initial investment in these companies.

THE LOCATION AND CONCENTRATION OF OUR FACILITIES SUBJECTS US TO THE RISK OF EARTHQUAKES, FLOODS OR OTHER NATURAL DISASTERS

Our corporate headquarters, including most of our research and development facilities and manufacturing operations, are located in the San Francisco Bay Area of Northern California, an area known for seismic activity. This area has also experienced flooding in the past. In addition, many of the components necessary to supply our products are purchased from suppliers subject to risk from natural disasters, based in areas including the San Francisco Bay Area, Taiwan, and Japan. A significant natural disaster, such as an earthquake or a flood, could harm our business, financial condition, and operating results.

WE ARE DEPENDENT ON SUB-CONTRACTORS TO MANUFACTURE AND DELIVER PRODUCTS TO OUR CUSTOMERS

We subcontract with other companies to manufacture our products. We are totally reliant on the ability of our subcontractors to produce products to be sold to our customers, and while we closely monitor our subcontractors performance we cannot assure you that such subcontractors will continue to produce our products in a timely and effective manner. We also can not assure you that difficulties experienced by our subcontractors (such as interruptions in a subcontractor’s ability to make or ship our products, or fix quality assurance problems) would not harm our business, operating results, or financial condition. If we decide to change subcontractors we could experience delays in setting up new subcontractors which would result in delay in delivery of our products.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

The Company is exposed to various market risks, including changes in foreign currency exchange rates. Market risk is the potential loss arising from adverse changes in market rates and prices, such as foreign currency exchange and interest rates. The Company does not

enter into derivatives or other financial instruments for trading or speculative purposes. The Company enters into financial instrument contracts to manage and reduce the impact of changes in foreign currency exchange rates. The counterparties to such contracts are major financial institutions.

Foreign Exchange Contracts

During 2000 the Company utilized forward foreign exchange contracts to hedge the currency fluctuations in transactions denominated in foreign currencies, thereby limiting the Company's risk that would otherwise result from changes in exchange rates. The transactions hedged were intercompany accounts receivable and payable between the Company and its Japanese subsidiary. The periods of the forward foreign exchange contracts correspond to the reporting periods of the hedged transactions. Foreign exchange gains and losses on intercompany balances and the offsetting losses and gains on forward foreign exchange contracts are reflected in the income statement.

As of December 31, 2000, the Company had one outstanding forward foreign exchange contract to sell Yen equivalent to approximately $3.2 million with an expiration date of January 12, 2001. The estimated fair value of the foreign currency contract represents the amount required to enter into offsetting contracts with similar remaining maturities based on quoted market prices. As of December 31, 2000, the difference between the fair value of the outstanding contract and the contract amount was immaterial. Market risk was estimated as the potential decrease in fair value resulting from a hypothetical 10% increase of the amount of Yen to purchase one US Dollar. A 10% fluctuation in the exchange rate for this currency would change the fair value by approximately $0.3 million. However, since the contract hedges foreign currency denominated transactions, any change in the fair value of the contract would be offset by changes in the underlying value of the transactions being hedged.

Interest Rate Risk

The fair value of the Company's cash portfolio at December 31, 2000, approximated carrying value. Market risk was estimated as the potential decrease in fair value resulting from an instantaneous hypothetical 100 basis-point increase in interest rates for any debt instruments in the Company's investment portfolio. As of December 31, 2000, the Company's cash equivalents and short-term investment portfolio includes debt securities of $259.6 million subject to interest rate risk. A 100 basis-point increase in market interest rates would result in a decrease of fair value of approximately $2.1 million.

The fair value of the Company's long-term debt, including current maturities, was estimated to be $3.5 million as of December 31, 2000, and equaled the carrying value. The Company's long-term debt requires interest payments based on a variable rate and therefore its fair value is not subject to interest rate risk.

To the Board of Directors and Stockholders of
Electronics for Imaging, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Electronics for Imaging, Inc. and its subsidiaries at December 31, 2000 and December 31, 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Jose, California

January 23, 2001

CONSOLIDATED BALANCE SHEETS

IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS

	DECEMBER 31, 2000	1999
ASSETS		
Current assets:		
Cash and cash equivalents	$102,804	$163,824
Short-term investments	250,799	306,504
Accounts receivable, net	72,006	81,904
Inventories	27,076	11,878
Other current assets	43,166	24,902
Total current assets	495,851	589,012
Property and equipment, net	51,456	49,776
Restricted investments	14,134	—
Other assets	92,949	17,287
Total assets	$654,390	$656,075
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 49,252	$ 47,102
Accrued and other liabilities	50,483	29,771
Income taxes payable	6,199	24,548
Total current liabilities	105,934	101,421
Long-term obligations, less current portion	3,140	3,467
Commitments and Contingencies (Note 6)		
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value; 5,000,000 shares authorized; none issued and outstanding	—	—
Common stock, $.01 par value; 150,000,000 shares authorized; 52,685,593 and 55,722,214 shares issued and outstanding, respectively	575	557
Additional paid-in capital	240,199	201,679
Treasury stock, at cost, 4,477,500 shares	(99,959)	—
Accumulated other comprehensive income (loss)	420	(772)
Retained earnings	404,081	349,723
Total stockholders' equity	545,316	551,187
Total liabilities and stockholders' equity	$654,390	$656,075

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

	YEARS ENDED DECEMBER 31, 2000	1999	1998
Revenue	$588,449	$570,752	$446,999
Cost of revenue	311,152	290,636	249,179
Gross profit	277,297	280,116	197,820
Operating expenses:			
Research and development	94,097	74,971	60,150
Sales and marketing	64,526	59,373	60,615
General and administrative	24,784	18,403	16,637
Amortization of goodwill and other acquisition-related charges	23,621	—	—
Merger-related expenses	—	1,422	—
	207,028	154,169	137,402
Income from operations	70,269	125,947	60,418
Other income, net	21,550	16,250	9,859
Income before income taxes	91,819	142,197	70,277
Provision for income taxes	(37,461)	(46,914)	(22,456)
Net income	$ 54,358	$ 95,283	$ 47,821
Net income per basic common share	$0.99	$1.74	$0.89
Shares used in per-share calculation	54,649	54,853	53,507
Net income per diluted common share	$0.97	$1.67	$0.87
Shares used in per-share calculation	55,983	56,963	54,972

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

IN THOUSANDS	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	TREASURY STOCK	OTHER COMPREHENSIVE INCOME (LOSS)	RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
Balances as of December 31, 1997	53,030	$530	$139,578	$ —	$ —	$206,619	$346,727
Comprehensive income							
Net income						47,821	47,821
Functional currency adjustment					(199)		(199)
Comprehensive income					(199)	47,821	47,622
Exercise of common stock options	954	10	8,683				8,693
Tax benefit related to stock plans			5,638				5,638
Balances as of December 31, 1998	53,984	540	153,899	—	(199)	254,440	408,680
Comprehensive income							
Net income						95,283	95,283
Functional currency adjustment					71		71
Market valuation on short-term investments					(644)		(644)
Comprehensive income					(573)	95,283	94,710
Exercise of common stock options	1,738	17	27,573	—			27,590
Tax benefit related to stock plans			20,207				20,207
Balances as of December 31, 1999	55,722	557	201,679	—	(772)	349,723	551,187
Comprehensive income							
Net income						54,358	54,358
Functional currency adjustment					(96)		(96)
Market valuation on short-term investments					1,288		1,288
Comprehensive income					1,192	54,358	55,550
Exercise of common stock options	1,441	18	18,294				18,312
Tax benefit related to stock plans			14,271				14,271
Fair value of stock options assumed			5,955				5,955
Repurchase of common stock— (treasury method)	(4,477)			(99,959)			(99,959)
Balances as of December 31, 2000	52,686	$575	$240,199	$(99,959)	$ 420	$404,081	$545,316

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

IN THOUSANDS	YEARS ENDED DECEMBER 31, 2000	1999	1998
Cash flows from operating activities:			
Net income	$ 54,358	$95,283	$ 47,821
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	18,461	14,464	14,051
Purchased in-process research and development	20,300	—	—
Deferred taxes	(3,039)	(13,304)	(2,110)
Change in reserve for bad debts	988	(431)	250
Other	96	71	(199)
Changes in operating assets and liabilities:			
Accounts receivable	10,196	(21,813)	(27,431)
Inventories	(10,305)	4,607	9,912
Receivable from subcontract manufacturers	(11,022)	(407)	12,276
Other current assets	(3,965)	2,245	(38)
Accounts payable and accrued liabilities	(887)	13,988	19,802
Income taxes payable	1,354	36,806	6,795
Net cash provided by operating activities	76,535	131,509	81,129
Cash flows from investing activities:			
Purchases of short-term investments	(1,134,284)	(132,188)	(327,483)
Sales/maturities of short-term investments	1,191,777	94,171	243,196
Net purchases of restricted investments	(14,134)	—	—
Investment in property and equipment, net	(15,510)	(15,622)	(13,210)
Business acquired, net of cash received	(83,769)	—	—
Purchase of other assets	825	347	(181)
Net cash used for investing activities	(55,095)	(53,292)	(97,678)

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

IN THOUSANDS	YEARS ENDED DECEMBER 31,		
	2000	1999	1998
Cash flows from financing activities:			
Repayment of long-term obligations	(813)	(892)	(101)
Issuance of common stock	18,312	27,590	14,331
Repurchase of common stock	(99,959)	—	—
Net cash provided by (used for) financing activities	(82,460)	26,698	14,230
Increase (decrease) in cash and cash equivalents	(61,020)	104,915	(2,319)
Cash and cash equivalents at beginning of year	163,824	58,909	61,228
Cash and cash equivalents at end of year	102,804	$163,824	$58,909
Supplemental disclosures of cash flow information:			
Cash paid for interest	$355	$303	$369
Cash paid for income taxes	40,984	22,591	11,448
Equipment purchased under capital leases	—	—	430

See accompanying notes to consolidated financial statements.

NOTE 1: THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES

The Company and Its Business

Electronics for Imaging, Inc., a Delaware corporation (the "Company"), through its subsidiaries, designs and markets products that support color and black-and-white printing on a variety of peripheral devices. Its products incorporate hardware and software technologies that transform digital copiers and printers from many leading copier manufacturers into fast, high-quality networked printers. The Company's products include stand-alone servers, which are connected to digital copiers and other peripheral devices, and controllers, which are embedded in digital copiers and desktop color laser printers. The Company operates in one industry and sells its products primarily to original equipment manufacturers in North America, Europe and Japan. Substantially all of the Company's revenue to date has resulted from the sale of print servers and controllers.

Basis of Presentation

The accompanying combined consolidated financial statements include the accounts of the Company and its subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

Revenue Recognition

Revenue is recognized when the product is shipped, provided no significant obligations remain and collectibility is reasonably probable. Provisions for estimated warranty costs and potential sales returns are recorded when revenue is recognized.

Fair Value of Financial Instruments

The carrying amounts of cash, cash equivalents, short-term investments, accounts receivable, long-term investments, accounts payable, accrued liabilities and bonds payable as presented in the financial statements, approximate fair value based on the nature of these instruments and prevailing interest rates.

Concentration of Credit Risk

The Company is exposed to credit risk in the event of default by any of its customers to the extent of amounts recorded on the consolidated balance sheet. The Company performs ongoing evaluations of the collectibility of the accounts receivable balances for its customers and maintains reserves for estimated credit losses; such actual losses have been within management's expectations.

Cash, Cash Equivalents and Short-term Investments

The Company generally invests its excess cash in deposits with major banks, money market securities, municipal, U.S. government and corporate debt securities. By policy, the Company invests primarily in high-grade marketable securities. The Company is exposed to credit risk in the event of default by the financial institutions or issuers of these investments to the extent of amounts recorded on the consolidated balance sheet.

The Company considers all highly liquid investments, generally with a maturity of three months or less at the time of purchase, to be cash equivalents. The cost of these investments has generally approximated fair value. Investments with longer maturities are classified as available-for-sale or hold-to-maturity. Available-for-sale and hold-to-maturity securities are stated at fair value with unrealized gains and losses reported as a separate component of stockholders' equity, net

of deferred income taxes. Hold-to-maturity securities collateralize certain lease obligations. Realized gains and losses on sales of investments are included in other revenues.

Inventories

Inventories are stated at standard cost which approximates the lower of actual cost using a first-in, first-out method, or market. The Company periodically reviews its inventories for potential slow-moving or obsolete items and writes down specific items to net realizable value as appropriate.

Property and Equipment

Property and equipment is recorded at cost. Depreciation on assets is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 60 months. Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the improvements or the lease term, if shorter. Land improvements are amortized using the straight-line method over the estimated useful lives of the improvements.

Amortization of Intangibles

Goodwill and other intangible assets acquired to date are being amortized on a straight-line basis over periods ranging from 1 to 7 years.

Income Taxes

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes". Under SFAS 109, deferred tax liabilities and assets are determined based on the differences between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. No provision for U.S. income tax is made for undistributed earnings of the Company's foreign subsidiaries, to the extent it is the Company's intention to indefinitely reinvest these earnings in the respective subsidiaries.

Foreign Currency Translation

The functional currency for all of the Company's foreign operations, except for Japan, is the U.S. dollar. The functional currency for Japan is the Japanese Yen. Where the U.S. dollar is the functional currency, translation adjustments are recorded in income. Where the Japanese Yen is the functional currency, translation adjustments are recorded as a separate component of Stockholders' Equity. Foreign currency translation and transaction gains and losses have not been significant in any period presented.

Accounting for Derivative Instruments and Risk Management

The Company operates internationally, giving rise to exposure to market risk from changes in foreign exchange rates. Derivative financial instruments are used by the Company to reduce those risks. The Company does not hold or issue financial or derivative financial instruments for trading or speculative purposes. The magnitude and volume of such transactions were not material for the periods presented. As of December 31, 2000, the Company had one outstanding forward foreign exchange contract to sell Yen equivalent to approximately $3.2 million with an expiration date of January 12, 2000.

In June 1999, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 133 (SFAS 133) "Accounting for Derivative Instruments and Hedging". This statement establishes accounting and reporting standards for derivative instruments and for hedging activities and requires, among other things, that all derivatives be recognized as either assets or liabilities in the statement of financial position and measure those instruments at fair value. In June 1999, the FASB issued Statement of Financial Accounting Standards No. 137 (SFAS 137), "Accounting for Derivative Instruments and Hedging Activities-Deferral of Effective Date of FASB Statement No. 133". SFAS 133, as amended by SFAS 137, is effective for fiscal quarters and fiscal years beginning after June 15, 2000. The Company adopted SFAS 133 on January 1, 2001 and the adoption of this pronouncement is not expected to have a material impact on the Company's financial position and results of operations.

Stock Options

In 1997, the Company adopted Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation". As permitted under this standard, the Company has elected to follow Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees" in accounting for its stock options and other stock-based employee awards. Pro forma information regarding net income and earnings per share, as calculated under the provisions of SFAS 123, are disclosed in Note 9.

Computation of Net Income per Common Share

Net income per basic common share is computed using the weighted average number of common shares outstanding during the period. Net income per diluted common share is computed using the weighted average number of common shares and potential common shares outstanding during the period. Potential common shares result from the assumed exercise, using the treasury stock method, of outstanding common stock options having a dilutive effect.

Comprehensive Income

Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130 (SFAS 130), "Reporting Comprehensive Income". This Statement requires that all items recognized under accounting standards as components of comprehensive earnings be reported in an annual financial statement that is displayed with the same prominence as other annual financial statements. This Statement also requires that an entity classify items of other comprehensive earnings by their nature in an annual financial statement. Comprehensive income has been presented as part of the Consolidated Statements of Stockholder' Equity. Accumulated other comprehensive income (losses), as presented in the accompanying consolidated balance sheets, consists of the net unrealized gains (losses) on available-for-sale investments, net of tax, and the cumulative translation adjustment.

Reclassifications

Certain prior year balances have been reclassified to conform with the current year presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2: MERGERS AND ACQUISITIONS

1999 Merger

On August 31, 1999 the Company merged with Management Graphics Inc. (“MGI”), a Minnesota-based corporation that developed digital print on demand products and other digital imaging products. The merger was accounted for as a tax free, pooling of interests combination and, accordingly, the consolidated financial statements have been restated to include the historical results of MGI for all periods presented prior to the acquisition, as if the merged entity was a wholly-owned subsidiary of Electronics For Imaging, Inc. since inception.

2000 Acquisitions

On October 23, 2000, the Company acquired Splash Technology Holdings, Inc. (“Splash”) for total consideration of approximately $159.7 million, comprising of $146.8 million in cash, $6.0 million for the fair value of stock options assumed and $6.9 million of capitalized transaction-related costs. The acquisition was accounted for as a purchase business combination and accordingly, the purchase price has been allocated to the tangible and identifiable intangible assets acquired and liabilities assumed on the basis of their estimated fair values on the date of acquisition as follows:

IN THOUSANDS	
Fair value of assets acquired and liabilities assumed	$ 59,885
In-process research and development	20,300
Developed technology	18,500
Workforce-in-place	2,200
Trademarks and trade names	5,500
Goodwill	53,275
	$159,660

Valuation of the intangible assets acquired was determined by an independent third-party appraiser and consists of developed technology, trademarks and trade names, and workforce-in-place. The amount allocated to the purchased in-process research and development (“IPR&D”)was determined using established valuation techniques and was expensed upon acquisition because technological feasibility had not been established and no future alternative uses existed. The percentage of completion for such products was estimated to range from 50% to 90%. The value of this IPR&D was determined by estimating the costs to develop the purchased IPR&D into a commercially viable product, estimating the resulting net cash flows from the sale of the products resulting from the completion of the IPR&D and discounting the net cash flows back to their present value at rates ranging from 25% to 30%. The excess of the purchase price over tangible and identifiable intangible assets acquired and liabilities assumed has been recorded as goodwill. The developed technology, trademarks and trade names, workforce-in-place and goodwill are being amortized over estimated useful lives ranging from 4 to 7 years.

Capitalized transaction related costs include direct transaction costs primarily for financial advisory and legal fees totaling $2.1 million, employee severance costs totaling $3.4 million and costs associated with terminating certain contracts of Splash totaling $1.4 million.

The unaudited pro forma information set forth below represents the revenues, net income and earnings per share of the Company and Splash as if the acquisition were effective on January 1, 1999, and includes certain pro forma adjustments, including the adjustment of amortization expense to reflect purchase price allocations, interest income to reflect net cash used for the purchase and the related income tax effects of these adjustments.

IN THOUSANDS, EXCEPT PER SHARE DATA	YEARS ENDED DECEMBER 31,	
	2000	1999
Revenue	$640,096	$640,760
Net income	$ 55,192	$ 85,901
Basic earnings per common share	$ 1.01	$1.57
Diluted earnings per common share	$0.99	$ 1.51

The unaudited pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisition been consummated at the beginning of the period presented.

NOTE 3: BALANCE SHEET COMPONENTS

IN THOUSANDS	DECEMBER 31, 2000	1999
Accounts receivable:		
Accounts receivable	$74,436	$83,170
Less reserves and allowances	(2,430)	(1,266)
	$72,006	$81,904
Inventories:		
Raw materials	$25,928	$10,844
Work in process	—	33
Finished goods	1,148	1,001
	$27,076	$11,878
Other current assets:		
Receivable from subcontract manufacturers	$18,911	$ 4,742
Deferred income taxes, current portion	17,695	14,772
Other	6,560	5,388
	$43,166	$24,902

NOTE 3: BALANCE SHEET COMPONENTS (CONTINUED)

IN THOUSANDS	DECEMBER 31, 2000	1999
Property and equipment:		
Land and land improvements	$28,930	$27,681
Equipment and purchased software	70,413	59,499
Furniture and leasehold improvements	16,354	13,261
	115,697	100,441
Less accumulated depreciation and amortization	(64,241)	(50,665)
	$51,456	$49,776
Other assets:		
Deferred income taxes, non-current portion	$ 15,031	$ 14,915
Goodwill	53,406	—
Other intangibles	29,432	—
Accumulated amortization of goodwill and intangibles	(6,560)	—
Other	1,640	2,372
	$92,949	$17,287
Accrued and other liabilities:		
Accrued compensation and benefits	$ 15,019	$ 7,263
Accrued product-related obligations	13,427	7,809
Accrued royalty payments	8,564	7,327
Other accrued liabilities	13,473	7,372
	$50,483	$29,771

NOTE 4: SHORT-TERM AND RESTRICTED INVESTMENTS

The tables to the right summarize the Company's investments placed in securities:

DECEMBER 31, 2000 IN THOUSANDS	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Municipal Securities	$254,060	$782	—	$254,842
U.S. Government Securities	9,911	180	—	10,091
Total short-term and restricted investments	$263,971	$962	—	$264,933

DECEMBER 31, 1999 IN THOUSANDS	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Municipal Securities	$ 246,861	—	$(804)	$246,057
U.S. Government Securities	54,636	—	(139)	54,497
U.S. Corporate Debt Securities	5,969	—	(19)	5,950
Total investments	$307,466	—	$(962)	$306,504

The table to the right summarizes debt maturities as of December 31, 2000:

IN THOUSANDS	AMORTIZED COST	FAIR VALUE
Less than one year	$163,174	$163,389
Due in 1-2 years	75,942	76,467
Due in 2-3 years	24,855	25,077
Total short-term and restricted investments	$263,971	$264,933

NOTE 5: LONG-TERM DEBT

Long Term Debt consists of amounts due to the City of Foster City for certain bonds assumed by the Company during the purchase of land (see Note 6). Principal amounts owing under the bonds are presented in the table to the right:

YEAR ENDING DECEMBER 31,	IN THOUSANDS
Total principal	$3,466
Less: current portion	(326)
	$ 3,140

The bonds are secured by the land and bear an annual interest rate of approximately 7%. Interest and principal payments are due semi-annually with the last payment occurring in June 2009. Principal payments under the bonds payable are presented in the table to the right:

YEAR ENDING DECEMBER 31,	IN THOUSANDS
2001	$ 326
2002	297
2003	317
2004	340
2005	365
Thereafter	1,495
	$3,140

NOTE 6: COMMITMENTS AND CONTINGENCIES

Leases

In 1997, the Company began development of a corporate campus on a 35-acre parcel of land in Foster City, California. During 1997 and 1998 the Company spent approximately $27.3 million on the land and associated improvement costs. In addition to purchasing the land, the Company entered into an agreement ("1997 Lease") to lease a ten-story 295,000 square foot building to be constructed on the site. The lessor of the building funded $56.8 million for the construction of the building. In July 1999 the Company completed construction of the building and began making rent payments. Also in conjunction with the lease, the Company has entered into a separate ground lease with the lessor of the building for approximately 35 years.

In December 1999 the Company entered into a second agreement ("1999 Lease") to lease a maximum of 543,000 square feet of additional facilities, to be constructed adjacent to the first building discussed above. As of December 31, 2000, the lessor has funded $13.4 million of a maximum commitment of $137.0 million for the construction of the facilities, with the portion of the committed amount actually used for construction to be determined by the Company. Rent obligations for the building will bear a direct relationship to the carrying cost of the commitments drawn down. Construction of the facilities began in January 2000 and is scheduled for completion over the next 36 months. In connection with the lease, the Company entered into a lease of the related parcels of land in Foster City to the lessor of the buildings at a nominal rate and for a term of 30 years. If the Company does not renew the building lease, the ground lease converts to a market rate.

Both leases have an initial term of seven years, with options to renew subject to certain conditions. The Company may, at its option, purchase the facilities during or at the end of the term of the lease for the amount expended by the respective lessor to construct the facilities. The Company has guaranteed to the lessors a residual value associated with the buildings equal to approximately 82% of the their funding. The Company may be liable to the lessor for the amount of the residual guarantee if it either defaults on a covenant, fails to renew the lease, or does not purchase or locate a purchaser for the leased building at the end of the lease term. During the term of the leases the Company must maintain a minimum tangible net worth. In addition, the Company has pledged certain marketable securities, which is in proportion to the amount drawn under each lease. Under the 1997 Lease, the pledged collateral ($70.2 million at December 31, 2000) may be withdrawn at any time, but withdrawal results in an increase to the lease rate and the imposition of additional financial covenant restrictions. The funds pledged under the 1999 Lease ($14.1 million at December 31, 2000) may be invested by the Company in certain securities, however the funds are restricted as to withdrawal at all times.

The Company also leases office facilities in various locations in the United States and overseas for periods ranging from two to five years, expiring between May 2002 and August 2005.

The table to the right summarizes the future minimum lease payment under the non-cancelable operating leases:

FISCAL YEAR	IN THOUSANDS
2001	$ 5,308
2002	5,024
2003	4,180
2004	2,579
2005	207
Thereafter	—
Total	$17,298

Note: Lease obligation related to the principal corporate facility is estimated and is based on current market interest rates (LIBOR) and based on collateralized assumptions.

Rental expense amounted to approximately $6.7 million, $6.6 million, and $4.6 million for the fiscal years ended 2000, 1999 and 1998, respectively.

Legal Proceedings

The Company and certain principal officers and directors were named as defendants in class action complaints filed in both the California Superior Court of the County of San Mateo on December 15, 1997, and the United States District Court for the Northern District of California on December 31, 1997 on behalf of purchasers of the common stock of the Company during the class period from April 10, 1997, through December 11, 1997. Additionally, in January 1999, two class action complaints were filed, and subsequently consolidated into one case, in the United States District Court for the Northern District of California against Splash, certain of its officers on behalf of purchasers of the common stock of Splash during the class period from January 7, 1997 through October 13, 1998. The complaints allege violations of securities laws during the class period. Management believes the lawsuits are without merit. However, due to the inherent uncertainties of litigation, the Company cannot accurately predict the ultimate outcome of the litigation. Any unfavorable outcome of the litigation could have an adverse impact on the Company's financial condition and results of operations.

On August 31, 2000, after the announcement of the merger agreement between Splash and the Company, a class action lawsuit was filed against Splash and its directors. The Plaintiffs, Splash and the Company have agreed in principle to enter into a settlement agreement that would resolve all outstanding disputes and dismiss the case with prejudice. The parties are currently finalizing the details of the settlement agreement. The Company and Splash deny any wrongdoing whatsoever, but agreed to the settlement to eliminate the burden and expense of further litigation. In addition, the Company is involved from time to time in litigation relating to claims arising in the normal course of its business. The Company believes that the ultimate resolution of such claims will not materially affect the Company's business or financial condition.

NOTE 7: INCOME TAXES

The provision (benefit) for income taxes is summarized as follows:

IN THOUSANDS	YEARS ENDED DECEMBER 31,		
	2000	1999	1998
Current:			
U.S. Federal	$34,451	$51,085	$20,771
State	4,197	8,044	3,749
Foreign	1,852	1,463	46
Total current	40,500	60,592	24,566
Deferred:			
U.S. Federal	(2,469)	(13,265)	(2,348)
State	(549)	(408)	238
Foreign	(21)	(5)	—
Total deferred	(3,039)	(13,678)	(2,110)
Total provision (benefit) for income taxes	$37,461	$46,914	$22,456

The tax effects of temporary differences that give rise to deferred tax assets (liabilities) are presented in the table to the right:

IN THOUSANDS	DECEMBER 31,	
	2000	1999
Depreciation	$ (306)	$ 1,901
Inventory reserves	7,209	4,532
Other reserves and accruals	4,473	6,762
State taxes payable	523	1,568
Amortization of intangibles	1,276	4,636
Deferred tax on I/C transactions	10,117	8,148
Net operating loss carryforwards and credits	5,811	—
Manufacturing reserves	1,873	—
Other	1,750	2,140
Total deferred tax assets	$32,726	$29,687

A reconciliation between the income tax provision computed at the federal statutory rate and the actual tax provision is presented in the table to the right:

IN THOUSANDS	YEARS ENDED DECEMBER 31,					
	2000		1999		1998	
	$	%	$	%	$	%
Tax expense at federal statutory rate	32,137	35.0	$49,769	35.0	$24,572	35.0
State income taxes, net of federal benefit	4,798	5.2	5,502	3.9	3,063	4.4
Tax-exempt interest income	(4,480)	(4.9)	(3,601)	(2.5)	(2,717)	(4.0)
Research and development credits	(3,934)	(4.3)	(2,725)	(1.9)	(1,874)	(2.8)
FSC benefit	(2,148)	(2.3)	(3,360)	(2.4)	(1,039)	(1.5)
Unbenefited foreign net operating losses	2,546	2.8	—	—	—	—
In-process technology and amortization of goodwill	7,698	8.4	—	—	—	—
Other	844	0.9	1,329	0.9	451	0.9
	$37,461	40.8	$46,914	33.0	$22,456	32.0

Income before income taxes includes $0.3 million, $2.0 million and $3.2 million of income relating to non-U.S. operations for 2000, 1999 and 1998, respectively.

The company has approximately $13.2 million and $1.0 million of loss and credit carryforwards at December 31, 2000. These losses and credits will expire between 2002 and 2019.

NOTE 8: EARNINGS PER SHARE

The following table presents a reconciliation of basic and diluted earnings per share for the three years in the period ended December 31, 2000:

IN THOUSANDS, EXCEPT PER SHARE DATA	YEARS ENDED DECEMBER 31,		
	2000	1999	1998
Net income available to common shareholders	$54,358	$95,283	$47,821
Shares			
Basic shares	54,649	54,853	53,507
Effect of Dilutive Securities	1,334	2,110	1,465
Diluted shares	55,983	56,963	54,972
Earnings per common share			
Basic EPS	$0.99	$1.74	$0.89
Diluted EPS	$0.97	$1.67	$0.87

ANTIDILUTIVE OPTIONS. Options to purchase 4,729,988, 349,791, and 2,742,510 shares of common stock outstanding as of December 31, 2000, 1999, and 1998, respectively, were not included in the computations of diluted EPS because the options' exercise prices were greater than the average market price of the common shares for the years then ended.

NOTE 9: EMPLOYEE BENEFIT PLANS

STOCK OPTION PLANS

As of December 31, 2000, the Company has six stock-based compensation plans, described below. The Company applies APB 25 and related interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for its fixed stock option plans. Had compensation cost for options granted in 2000, 1999 and 1998 under the Company's option plans been determined based on the fair value at the grant dates as prescribed by SFAS 123, the Company's net income and pro forma net income per share would have been as follows:

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS		YEARS ENDED DECEMBER 31,		
		2000	1999	1998
Net income	As reported	$54,358	$95,283	$47,821
	Pro forma	$ 4,266	$ 61,410	$18,543
Earnings per basic common share	As reported	$0.99	$1.74	$0.89
	Pro forma	$0.08	$ 1.12	$0.35
Earnings per diluted common share	As reported	$0.97	$1.67	$0.87
	Pro forma	$0.08	$1.08	$0.34

The Company has five stock option plans: the 1989 Stock Plan (a "Predecessor Plan") , the 1990 Stock Plan (a "Predecessor Plan"), the MGI 1985 Nonqualified Stock Option Plan (a "Predecessor Plan"), the Splash 1996 Stock Option Plan (a "Predecessor Plan") and the 1999 Equity Incentive Plan (a "Stock Plan"). The Company does not grant any options under the Predecessor Plans, however all outstanding options under the Predecessor Plans continue to be governed by the terms and conditions of the existing option agreements for those grants. Under the Stock Plans, the exercise price of each option equals the market price of the Company's stock on the date of grant and an option's maximum term is 10 years. Options are granted periodically throughout the year and generally vest ratably over two to four years. At December 31, 2000, approximately 2.7 million shares were available for future grants to employees, directors or consultants.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model, the attribution method with respect to graded vesting and the following weighted-average assumptions:

Black-Scholes Assumptions and Fair Value	Years Ended December 31, 2000	1999	1998
Expected Volatility	88.0%	76.3%	76.0%
Dividend Yield	0.0%	0.0%	0.0%
Risk Free Interest Rate	4.91% to 5.11%	5.95% to 6.44%	4.49% to 4.65%
Weighted Average Expected Option Term	4.0 years	4.5 years	4.4 years
Weighted Average Fair Value of Options Granted	$21.96	$19.35	$6.98

A summary of the status of the Company's stock option activity is presented below:

In thousands, except exercise price	2000 Shares	2000 Average Exercise Price	1999 Shares	1999 Average Exercise Price	1998 Shares	1998 Average Exercise Price
Beginning of Year	7,335	$27.73	6,734	$21.04	6,401	$21.76
Granted	9,045	27.92	2,955	36.81	1,931	16.05
Exercised	(1,441)	12.60	(1,738)	16.06	(954)	9.19
Forfeited	(2,036)	35.63	(616)	31.09	(644)	30.73
End of Year	12,903	$28.31	7,335	$27.73	6,734	$21.04

The table to the right summarizes information about stock options outstanding at December 31, 2000:

Range of Exercise Prices	Options Outstanding: Number Outstanding	Weighted Avg. Remaining Life	Weighted Avg. Exercise Price	Options Exercisable: Number Exercisable	Weighted Avg. Exercise Price
	in thousands			in thousands	
$0.15 to $11.94	588	6.40	$ 7.70	283	$ 3.14
$11.95 to $12.81	2,615	9.48	$ 12.81	239	$ 12.79
$12.82 to $15.77	1,182	7.48	$ 14.62	677	$ 14.62
$15.78 to $21.38	499	8.99	$20.26	65	$ 18.31
$21.39 to $22.31	1,536	9.43	$ 22.31	306	$ 22.31
$22.32 to $25.63	575	5.97	$25.42	509	$ 25.61
$25.64 to $33.81	1,656	8.11	$33.59	673	$ 33.39
$33.82 to $45.18	1,008	8.56	$42.47	343	$ 41.89
$45.19 to $45.19	2,067	9.08	$ 45.19	583	$ 45.19
$45.20 to $60.31	1,177	7.54	$ 50.19	587	$49.30
$0.01 to $60.31	12,903	8.49	$ 28.31	4,265	$29.78

Employee Stock Purchase Plan

In 2000, the Company established an Employee Stock Purchase Plan which allows qualified employees (as defined) to purchase designated shares of the Company's common stock at a price equal to 85% of the closing price on specified dates. The Company has authorized 400,000 shares for purchase under this plan, with the first purchases occurring in 2001.

Employee 401(k) Plan

The Company sponsors a 401(k) Savings Plan (the "401(k) Plan") to provide retirement and incidental benefits for its employees. Employees may contribute from 1% to 20% of their annual compensation to the Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. The Company currently matches 50% of the employee contributions, up to a maximum of the first 4% of the employee's compensation contributed to the plan, subject to IRS limitations. The Company match is annually determined by the Board of Directors. All matching contributions vest over four years starting with the hire date of the individual employee. Company matching contributions to the Plan totaled $1.0 million in 2000.

NOTE 10: INFORMATION CONCERNING BUSINESS SEGMENTS AND MAJOR CUSTOMERS

Information about Products and Services

The Company operates in a single industry segment, technology for high-quality printing in short production runs. The Company does not have separate operating segments for which discrete financial statements are prepared. The Company's management makes operating decisions and assesses performance based on primarily product revenues and related gross margins.

The following is a breakdown of revenues for the years ended December 31, 2000, 1999 and 1998 by product category:

in thousands	2000 revenue	1999 revenue	1998 revenue
Stand-alone servers connecting to digital color copiers	$268,436	$244,028	$291,785
Embedded desktop controllers, bundled color solutions and chipset solutions	129,277	149,899	90,133
Controllers for digital black-and-white solutions	130,780	121,071	19,196
Spares, licensing and other misc. sources	59,956	55,754	45,885
Total Revenue	$588,449	$570,752	$446,999

Information about Geographic Areas

The Company's sales originated in the United States, The Netherlands and Japan. Shipments to some of the Company's OEM partners are made to centralized purchasing and manufacturing locations, which in turn sell through to other locations. As a result of these factors, the Company believes that sales to certain geographic locations might be higher or lower, as accurate data is difficult to obtain.

The following is a breakdown of revenues by shipment destination for the years ended 2000, 1999 and 1998, respectively:

in thousands	years ended december 31,		
	2000	1999	1998
North America	$ 291,679	$277,997	$ 221,638
Europe	191,403	182,602	144,076
Japan	85,983	90,781	68,991
Rest of World	19,384	19,372	12,294
	$588,449	$570,752	$446,999

Information about Major Customers

Three customers, with total revenues greater than 10%, accounted for approximately 36%, 23% and 11% of revenue in 2000. Two customers accounted for 36% and 23% of revenue in 1999. Three customers accounted for approximately 44%, 27% and 14% of revenue in 1998. Three customers, with accounts receivable balances greater than 10%, in aggregate accounted for approximately 79%, 69% and 85% of the accounts receivable balance as of December 31 in 2000, 1999 and 1998, respectively.

The following tables present the Company's operating results for each of the eight quarters in the two-year period ended December 31, 2000. The information for each of these quarters is unaudited but has been prepared on the same basis as the audited consolidated financial statements appearing elsewhere in this Annual Report. In the opinion of management, all necessary adjustments (consisting only of normal recurring adjustments) have been included to present fairly the unaudited quarterly results when read in conjunction with the audited consolidated financial statements of the Company and the notes thereto appearing in this Annual Report. These operating results are not necessarily indicative of the results for any future period.

in thousands, except per share data

2000:	Q1	Q2	Q3	Q4
Revenue	$151,515	$152,176	$153,182	$131,576
Gross profit	73,612	72,943	73,499	57,243
Income (loss) from operations	32,444	28,452	24,974	(15,601)
Net income (loss)	25,423	22,832	20,045	(13,942)
Net income (loss) per basic common share	$0.45	$0.41	$0.37	$(0.26)
Net income (loss) per diluted common share	$0.44	$0.40	$0.37	$(0.26)
Revenue by product				
Stand-alone servers connecting to digital copiers	$73,747	$ 76,855	$ 67,666	$ 50,168
Embedded desktop controllers, bundled color solutions and chipset solutions	33,214	23,783	33,801	38,480
Controllers for digital black-and-white solutions	26,828	36,823	37,052	30,078
Spares, licensing and other misc. sources	17,726	14,715	14,663	12,850
Total revenue	$151,515	$152,176	$153,182	$131,576
Shipments by geographic area				
North America	$73,935	$ 71,755	$ 79,855	$ 66,134
Europe	52,849	57,185	43,496	37,873
Japan	18,727	19,354	24,548	23,354
Rest of World	6,004	3,882	5,283	4,215
Total revenue	$151,515	$152,176	$153,182	$131,576

1999:	Q1	Q2	Q3	Q4
Revenue	$124,204	$140,686	$158,211	$147,651
Gross profit	58,655	69,260	78,975	73,226
Income from operations	22,694	31,644	38,743	32,866
Net income	17,286	23,524	29,358	25,115
Net income per basic common share	$0.32	$0.43	$0.53	$0.45
Net income per diluted common share	$0.31	$0.41	$0.51	$0.44
Revenue by product				
Stand-alone servers connecting to digital copiers	$ 62,221	$ 58,106	$ 60,184	$ 63,517
Embedded desktop controllers, bundled color solutions and chipset solutions	31,664	36,913	43,940	37,382
Controllers for digital black-and-white solutions	16,794	35,176	41,907	27,194
Spares, licensing and other misc. sources	13,525	10,491	12,180	19,558
Total revenue	$124,204	$140,686	$158,211	$147,651
Shipments by geographic area				
North America	$ 56,784	$ 65,633	$77,762	$ 77,818
Europe	42,690	47,403	45,833	46,676
Japan	22,175	22,832	27,614	18,160
Rest of World	2,555	4,818	7,002	4,997
Total	$124,204	$140,686	$158,211	$147,651

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock was first traded on the NASDAQ National Market under the symbol EFII on October 2, 1992. The table to the right lists the high and low closing sales price during each quarter the stock was traded in 2000 and 1999.

As of February 28, 2001, there were approximately 322 stockholders of record. The Company has never paid cash dividends on its capital stock. The Company currently anticipates that it will retain all available funds for its business, and does not anticipate paying any cash dividends in the foreseeable future.

	2000				1999			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
High	$65.13	$64.06	$29.42	$24.69	$41.56	$54.75	$62.69	$58.88
Low	45.19	22.31	21.38	11.94	32.75	41.13	51.41	36.19

CORPORATE DIRECTORY

STOCKHOLDER INFORMATION

Independent Accountants
PriceWaterhouseCoopers LLP
Palo Alto, California

LISTING

Electronics for Imaging, Inc. is listed on the Nasdaq National Market System. The trading symbol is EFII.

TRANSFER AGENT + REGISTRATION

Fleet National Bank
c/o EquiServe
PO Box 43010
Providence, RI 02940-3010
Investor Relations Number 781-575-3120
Internet Address: http://www.EquiServe.com

ANNUAL MEETING

The annual meeting of Stockholders will be held on May 18, 2001.

CORPORATE + INVESTOR INFORMATION

Please direct inquiries to:

INVESTOR RELATIONS
Electronics for Imaging, Inc.
303 Velocity Way
Foster City, California 94404
Telephone: (650) 357-3500
Facsimile: (650) 357-3907
Visit the Electronics for Imaging, Inc.
World Wide Web site at http://www.efi.com

FORM 10-K

A copy of the Company's Form 10-K, filed with the Securities and Exchange Commission, is available without charge upon written request to:

Electronics for Imaging, Inc.
303 Velocity Way
Foster City, California 94404
Telephone: (650) 357-3500
Facsimile: (650) 357-3907

CORPORATE OFFICERS

GUY GECHT
Chief Executive Officer and Chairman of the Board

FRED ROSENZWEIG
President and Chief Operating Officer

JOSEPH CUTTS
Chief Financial Officer

BOARD OF DIRECTORS

GUY GECHT
Chairman of the Board

FRED ROSENZWEIG
President and Chief Operating Officer

GILL COGAN
Partner, Lightspeed Venture Partner

DAN MAYDAN
President, Applied Materials, Inc.

JEAN-LOUIS GASSÉE
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THOMAS I. UNTERBERG
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JAMES S. GREENE
Managing Partner, Augusta Ventures

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