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For Immediate Release

Adobe Systems Reports Record Revenue and Operating Profit for both Fourth Quarter and Fiscal Year 1999

Company Exceeds \$1 Billion in Annual Revenue and Grows Net Income by 126%

San Jose, Calif., (December 16, 1999) (NASDAQ:ADBE) — Adobe Systems Incorporated today reported financial results for its fourth quarter and fiscal year ended December 3, 1999.

For the fourth quarter, Adobe achieved record revenue of \$281.8 million, compared to \$246.7 million reported for the fourth quarter of fiscal 1998 and \$260.9 million reported in the third quarter of fiscal 1999.

In fiscal 1999, Adobe achieved \$1.015 billion in revenue, exceeding the \$1 billion mark for the first time in the Company's history. This compares to \$895 million in revenue last year, and represents 16% year over year revenue growth when considering revenue from businesses divested in 1998.

Net income for the fourth quarter of fiscal 1999 was \$97.4 million, compared to \$50.3 million reported in the fourth quarter of fiscal 1998 and \$57.2 million in the third quarter of fiscal 1999. Annual net income grew to \$237.8 million in fiscal 1999, compared to \$105.1 million in fiscal 1998, an increase of 126%.

Diluted earnings per share for the fourth quarter of fiscal 1999 were \$0.76 based on 127.4 million weighted average shares. This compares with diluted earnings per share of \$0.39 reported in the fourth quarter of fiscal 1998, based on 128.4 million weighted average shares, and diluted earnings per share of \$0.44 reported in the third quarter of fiscal 1999, based on 129.7 million weighted average shares.

(more)

Excluding restructuring and other charges, investment gains and losses from the Company's venture programs, an in-process research and development write-off, and a gain from the sale of a corporate facility, diluted earnings per share for the fourth quarter of fiscal 1999 were \$0.46.

Operating profit for the fourth quarter was \$81.9 million, compared to \$72.5 million in the fourth quarter of fiscal 1998, and \$72.0 million in the third quarter of fiscal 1999. Excluding acquired in-process research and development, and restructuring and other charges, Adobe's operating profit in the fourth quarter of fiscal 1999 was 31.5% of revenue, compared to 29.3% in both the fourth quarter of fiscal 1998 and last quarter.

In fiscal 1999, Adobe increased its total operating profit by \$134.5 million over fiscal 1998, an increase of 107%. Also, diluted earnings per share increased to \$1.84 in fiscal 1999, compared to \$0.77 in fiscal 1998 — an increase of 139%.

“Adobe's growth comes from the increased demand for our products for Web content creation and delivery. This has resulted in solid performance across all of our application product segments. Our results in fiscal 1999 were outstanding, and we are committed to our goals of 20% annual revenue growth and 30% operating profit in 2000,” said John E. Warnock, Chairman and Chief Executive Officer of Adobe.

The Adobe Board of Directors declared this quarter's cash dividend of \$0.025 per share, payable on January 11, 2000 to stockholders of record as of December 28, 1999.

The Company also announced today the planned retirement of its President and company co-founder, Charles Geschke. Dr. Geschke and Dr. Warnock founded Adobe more than 17 years ago, and have jointly run the Company since its inception.

“Adobe enters the next millennium in its strongest position ever — in terms of the strength of its management team, its leadership market position, and the quality of its products. While the decision to retire is never easy, I will always be grateful to the thousands of employees and millions of customers who have made Adobe Systems the finest software company in the world,” said Dr. Geschke.

His retirement will be effective at the end of March 2000 at which time Dr. Warnock will assume the title of President in addition to his current title of Co-Chairman and CEO. Dr. Geschke will continue in his role as Co-Chairman of Adobe's Board.

This press release contains forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially. Factors that might cause or contribute to such differences include, but are not limited to: lack of market acceptance of new products and upgrades; delays in shipment of the Company's new products and major new versions of existing products; introduction of new products by major competitors; ongoing weakness in the Company's printing business due to product transitions; industry transitions to new distribution, business and information delivery models; adverse economic conditions in any of the major countries in which the Company does business, and Year 2000 issues. For further discussion of the risks and uncertainties, readers should refer to the Company's SEC filings including the 1998 annual report on Form 10-K and the quarterly reports on Form 10-Q filed by the Company in 1999.

About Adobe Systems Incorporated

Founded in 1982, Adobe Systems is a leading provider of graphic design, publishing, and imaging software for Web and print production, and the fourth largest U.S. based personal software company with annual revenues exceeding \$1 billion. The Company builds award-winning software solutions for Web and graphic designers, professional publishers, document-intensive organizations, business users, and consumers. Adobe's products enable customers to create, publish and deliver visually-rich images and documents across all print and electronic media. Adobe's worldwide headquarters are in San Jose, California and its web site is located at www.adobe.com.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except for per share data)

	Three Months Ended		Twelve Months Ended	
	December 3 1999	November 27 1998	December 3 1999	November 27 1998
Revenue	\$ 281,770	\$ 246,736	\$ 1,015,434	\$ 894,791
Direct costs	24,070	24,292	94,540	101,034
Gross profit	257,700	222,444	920,894	793,757
Operating expenses:				
Research and development	57,007	46,800	197,476	188,261
Sales and marketing	85,707	74,795	328,505	315,544
General and administrative	24,976	28,551	103,622	118,615
Restructuring and other charges	3,271	(260)	23,028	38,245
Acquired in-process research and development	3,580	—	3,580	—
Amortization of goodwill and purchased intangibles	1,231	27	4,830	7,745
Total operating expenses	175,772	149,913	661,041	668,410
Operating income	81,928	72,531	259,853	125,347
Nonoperating income, net:				
Investment gain	61,745	2,505	88,891	14,994
Interest and other income	9,619	5,136	25,683	27,353
Total nonoperating income, net	71,364	7,641	114,574	42,347
Income before income taxes	153,292	80,172	374,427	167,694
Income tax provision	55,933	29,904	136,676	62,550
Net income	\$ 97,359	\$ 50,268	\$ 237,751	\$ 105,144
Basic net income per share	\$.82	\$.40	\$ 1.97	\$.79
Shares used in computing basic net income per share	119,170	126,230	120,786	132,866
Diluted net income per share	\$.76	\$.39	\$ 1.84	\$.77
Shares used in computing diluted net income per share	127,406	128,414	129,205	135,948

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except for per share data)

	December 3 1999	November 27 1998
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 171,145	\$ 110,871
Short-term investments	327,571	161,676
Receivables	78,766	141,180
Deferred income taxes	36,185	32,028
Other current assets	9,348	10,190
Total current assets	<u>623,015</u>	<u>455,945</u>
Property and equipment	69,138	93,887
Deferred income taxes	—	16,647
Restricted funds and security deposits	—	130,260
Other assets	111,706	70,592
Total assets	<u><u>\$ 803,859</u></u>	<u><u>\$ 767,331</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade and other payables	\$ 35,692	\$ 48,681
Accrued expenses	150,902	117,539
Accrued restructuring charges	8,675	8,867
Income taxes payable	56,684	64,546
Deferred revenue	15,676	11,333
Total current liabilities	<u>267,629</u>	<u>250,966</u>
Deferred income taxes	<u>24,021</u>	<u>—</u>
Stockholders' equity:		
Common stock, \$0.0001 par value, and additional paid-in capital	369,057	306,859
Retained earnings	896,239	732,730
Accumulated other comprehensive income	40,332	(1,879)
Treasury stock at cost, net of reissuances	(793,419)	(521,345)
Total stockholders' equity	<u>512,209</u>	<u>516,365</u>
Total liabilities and stockholders' equity	<u><u>\$ 803,859</u></u>	<u><u>\$ 767,331</u></u>