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For Immediate Release

Adobe Systems Reports Third Quarter Fiscal 2001 Results

Company Meets Original Q3 EPS Target, Acrobat® Grows 45 Percent Year-Over-Year

San Jose, Calif., (September 19, 2001) (NASDAQ:ADBE) — Adobe Systems Incorporated today reported financial results for its third quarter ended August 31, 2001.

In the third quarter of fiscal 2001, Adobe achieved revenue of \$292.1 million, compared to \$328.9 million reported for the third quarter of fiscal 2000 and \$344.1 million reported in the second quarter of fiscal 2001.

Pro forma diluted earnings per share for the third quarter of fiscal 2001, excluding non-operating gains and losses, were \$0.28.

“While I am disappointed that we fell short of our original revenue target, it is clear that our strategy of investing in Adobe Acrobat® products is paying off. Revenue in this segment grew 45 percent year-over-year,” said Bruce R. Chizen, president and chief executive officer of Adobe. “We once again demonstrated our ability to control expenses and deliver solid bottom line results in a difficult environment where we do not see any near-term improvement.”

Net income, which includes non-operating gains and losses, was \$40.3 million for the third quarter of fiscal 2001, compared to \$78.3 million reported in the third quarter of fiscal 2000, and \$61.3 million in the second quarter of fiscal 2001.

Including non-operating gains and losses, diluted earnings per share for the third quarter of fiscal 2001 were \$0.16 based on 248.6 million weighted average shares. This compares with diluted earnings per share of \$0.31 reported in the third quarter of fiscal 2000, based on 255.8 million weighted average shares, and diluted earnings per share of \$0.25 reported in the second quarter of fiscal 2001, based on 250.1 million weighted average shares.

Excluding the amortization of goodwill, Adobe's operating profit was \$96.4 million in the third quarter of fiscal 2001, compared to \$107.1 million in the third quarter of fiscal 2000 and \$121.5 million in the second quarter of fiscal 2001. As a percent of revenue, operating profit for the third quarter was 33 percent, compared to 32.6 percent in the third quarter of fiscal 2000 and 35.3 percent in the second quarter of fiscal 2001.

In summarizing its geographic performance in the third quarter, Adobe cited a significant decline in Japan revenue as the main reason for missing the targeted revenue.

"Assuming continued weak economic conditions in each of our major markets, we are targeting our Q4 fiscal 2001 revenue at \$310-320 million. This has changed from our previous target primarily due to the recent significant weakness in Japan. It does not include any potential economic impact of the recent national tragedy on Q4 business," stated Murray J. Demo, senior vice president and chief financial officer of Adobe.

For the fourth quarter of fiscal 2001, the Company announced that it continues to target a gross margin of 93 percent and an operating margin of 31 percent. As a percent of revenue, Adobe continues to target expenses by category as follows:

Research & Development – approximately 19 to 20 percent

Sales & Marketing – approximately 33 to 34 percent

General & Administrative – approximately 9 percent

In addition, Adobe is targeting its share count range to be between 246 and 248 million shares in fourth quarter of fiscal 2001. The Company also continues to target other income to be approximately \$4 million in the fourth quarter, and a tax rate of 33 percent.

These targets lead to a pro forma earnings per share target range in Q4 fiscal 2001 of \$0.27 to \$0.28 per share.

The Adobe Board of Directors declared this quarter's cash dividend of \$0.0125 per share, payable on October 9, 2001 to stockholders of record as of September 25, 2001.

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: delays in shipment of the Company's new products and major new versions of existing products; lack of market acceptance of new products and upgrades; adverse changes in economic conditions in any of the major countries in which the Company does business, including the recent slow-down affecting the United States, Europe, Japan, and potentially other geographic areas; potential adverse impact on demand due to the recent national tragedy; weakness in demand for application software and printers; introduction of new products by major competitors; declines in the average selling prices of the Company's products; industry transitions to new distribution, business and information delivery models; and ongoing weakness in the Company's printing business due to product transitions. For further discussion of the risks and uncertainties, individuals should refer to the Company's SEC filings, including the 2000 annual report on Form 10-K and quarterly reports on Form 10-Q filed by the Company in 2001.

About Adobe Systems Incorporated

Founded in 1982, Adobe Systems Incorporated (www.adobe.com) builds award-winning software solutions for Network Publishing, including Web, print, video, wireless and broadband applications. Its graphic design, imaging, dynamic media and authoring tools enable customers to create, manage and deliver visually-rich, reliable content. Headquartered in San Jose, Calif., Adobe is the second-largest PC software company in the U.S., with annual revenues exceeding \$1.2 billion.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	(Unaudited) August 31 2001	(Unaudited) September 1 2000	(Unaudited) August 31 2001	(Unaudited) September 1 2000
Revenue	\$ 292,118	\$ 328,867	\$ 965,180	\$ 911,184
Direct costs	<u>20,041</u>	<u>23,668</u>	<u>62,416</u>	<u>64,994</u>
Gross profit	<u>272,077</u>	<u>305,199</u>	<u>902,764</u>	<u>846,190</u>
Operating expenses:				
Research and development	54,189	61,572	169,473	179,942
Sales and marketing	95,447	106,633	308,889	288,015
General and administrative	26,030	29,903	87,475	84,580
Restructuring and other charges	—	—	—	5,629
Amortization of goodwill and purchased intangibles	<u>3,568</u>	<u>1,215</u>	<u>10,731</u>	<u>3,633</u>
Total operating expenses	<u>179,234</u>	<u>199,323</u>	<u>576,568</u>	<u>561,799</u>
Operating income	<u>92,843</u>	<u>105,876</u>	<u>326,196</u>	<u>284,391</u>
Nonoperating income, net:				
Investment gain (loss)	(39,447)	9,397	(87,516)	21,764
Interest and other income	<u>6,744</u>	<u>5,156</u>	<u>17,073</u>	<u>14,800</u>
Total nonoperating income (loss), net	<u>(32,703)</u>	<u>14,553</u>	<u>(70,443)</u>	<u>36,564</u>
Income before income taxes	60,140	120,429	255,753	320,955
Provision for income taxes	<u>19,846</u>	<u>42,159</u>	<u>84,398</u>	<u>112,343</u>
Net income	<u>\$ 40,294</u>	<u>\$ 78,270</u>	<u>\$ 171,355</u>	<u>\$ 208,612</u>
Basic net income per share	<u>\$.17</u>	<u>\$.33</u>	<u>\$.72</u>	<u>\$.88</u>
Shares used in computing basic net income per share	<u>238,051</u>	<u>238,464</u>	<u>239,110</u>	<u>237,902</u>
Diluted net income per share	<u>\$.16</u>	<u>\$.31</u>	<u>\$.68</u>	<u>\$.82</u>
Shares used in computing diluted net income per share	<u>248,566</u>	<u>255,828</u>	<u>250,844</u>	<u>255,198</u>

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	(Unaudited) August 31	(Audited) December 1
	2001	2000
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 292,819	\$ 236,866
Short-term investments	283,069	442,987
Receivables	149,298	140,514
Other receivables	19,001	19,599
Deferred income taxes	24,337	23,460
Other current assets	<u>22,461</u>	<u>14,486</u>
Total current assets	790,985	877,912
Property and equipment	80,073	64,268
Other assets	74,031	127,236
Deferred income taxes, long-term	<u>23,039</u>	<u>—</u>
Total assets	<u>\$ 968,128</u>	<u>\$ 1,069,416</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade and other payables	\$ 30,750	\$ 40,280
Accrued liabilities	121,636	181,861
Income taxes payable	126,455	74,768
Deferred revenue	<u>19,347</u>	<u>17,696</u>
Total current liabilities	<u>298,188</u>	<u>314,605</u>
Deferred income taxes	<u>—</u>	<u>2,267</u>
Stockholders' equity:		
Common stock, \$0.0001 par value, and additional paid-in capital	619,870	530,801
Retained earnings	1,334,869	1,172,504
Accumulated other comprehensive loss	(389)	(698)
Treasury stock at cost, net of reissuances	<u>(1,284,410)</u>	<u>(950,063)</u>
Total stockholders' equity	<u>669,940</u>	<u>752,544</u>
Total liabilities and stockholders' equity	<u>\$ 968,128</u>	<u>\$ 1,069,416</u>