



Press/Analyst Contacts

Mike Saviage
Adobe Systems Incorporated
408 536.4416
ir@adobe.com

Public Relations Contact:
Holly Campbell
Adobe Systems Incorporated
408 536.6401
campbell@adobe.com

FOR IMMEDIATE RELEASE

Adobe Systems Reports Fourth Quarter and Fiscal 2002 Results

Company Achieves 11 Percent Year-Over-Year Quarterly Revenue Growth

SAN JOSE, Calif. — December 12, 2002 (NASDAQ: ADBE) — Adobe Systems Incorporated, the leader in network publishing, today reported financial results for its fourth quarter and fiscal year ended November 29, 2002.

For the fourth quarter of fiscal 2002 Adobe achieved revenue of \$294.7 million, which compares to \$264.5 million reported for the fourth quarter of fiscal 2001 and \$284.9 million reported in the third quarter of fiscal 2002.

“We are pleased with our return to year-over-year quarterly revenue growth,” said Bruce R. Chizen, president and chief executive officer of Adobe. “We are also excited about our strong product roadmap and the revenue growth we expect through the year.”

Pro forma diluted earnings per share for the fourth quarter of fiscal 2002, which does not include restructuring and other charges, amortization and impairment of goodwill and purchased intangibles, and investment gains and losses, were \$0.25.

GAAP diluted earnings per share for the fourth quarter of fiscal 2002 were \$0.17, based on 238.4 million weighted average shares. This compares with diluted earnings per share of \$0.14 reported in the fourth quarter of fiscal 2001, based on 243.4 million weighted average shares, and diluted earnings per share of \$0.19 reported in the third quarter of fiscal 2002, based on 243.4 million weighted average shares.

GAAP net income was \$40.1 million for the fourth quarter of fiscal 2002, compared to \$34.3 million reported in the fourth quarter of fiscal 2001, and \$47.2 million in the third quarter of fiscal 2002.

Pro forma net income, which excludes restructuring and other charges, amortization and impairment of goodwill and purchased intangibles, and investment gains and losses, was \$59.1 million for the fourth quarter of fiscal 2002, compared to \$48.7 million in the fourth quarter of fiscal 2001, and \$52.5 million in the third quarter of fiscal 2002. As

Adobe Systems Reports Fourth Quarter and Fiscal 2002 Results

a percent of revenue, pro forma operating profit for the fourth quarter was 28.4 percent, compared to 25.7 percent in the fourth quarter of fiscal 2001 and 25.6 percent in the third quarter of fiscal 2002.

In fiscal 2002, Adobe achieved revenue of \$1.165 billion, compared to \$1.230 billion in fiscal 2001. Annual GAAP net income was \$191.4 million in fiscal 2002, compared to \$205.6 million in fiscal 2001.

For the first quarter of fiscal 2003, the Company announced that it is targeting revenue at \$275 million to \$290 million, with a gross margin of approximately 91 percent.

As a percent of revenue, Adobe is targeting Q1 fiscal 2003 expenses as follows:

Research & Development – approximately 22 to 23 percent

Sales & Marketing – approximately 33 to 34 percent

General & Administrative – approximately 10 percent

This results in a pro forma operating margin target of approximately 25 to 26 percent in the first quarter of fiscal 2003. The Company's full-year fiscal 2003 pro forma operating margin target range remains approximately 28 percent, as the Company discussed during its financial analyst meeting on October 28, 2002.

For its share count, Adobe is targeting between 238 and 240 million shares in the first quarter of fiscal 2003. The Company also is targeting other income to be approximately \$2 million to \$3 million, and a tax rate of 30 percent.

These targets lead to a pro forma earnings per share target range of \$0.21 to \$0.23 in the quarter.

The Adobe Board of Directors declared this quarter's cash dividend of \$0.0125 per share, payable on January 23, 2003 to stockholders of record as of January 9, 2003.

Forward Looking Statements Disclosure

This press release contains forward looking statements, including those related to revenue, earnings per share, and profitability, which 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: adverse changes in general economic conditions in any of the major countries in which the Company does business; delays in shipment of our new products and major new versions of existing products; lack of market demand or acceptance of new products and upgrades; integration of acquisitions; introduction of new products by major competitors; weakness in demand for application software, personal computers and printers; downward sales price adjustments; renegotiation of royalty/licensing arrangements; intellectual property disputes and litigation; industry transitions to new business models; changes in accounting rules; and market risk associated with our equity investments. For further discussion of these and other risks and uncertainties, individuals should refer to the Company's SEC filings, including the 2001 annual report on Form 10-K and quarterly reports on Form 10-Q filed in 2002. The Company does not undertake an obligation to update forward looking statements.

About Adobe Systems Incorporated

Founded in 1982, Adobe Systems Incorporated (www.adobe.com), the leader in network publishing, offers a comprehensive line of software for enterprise and creative professional customers. Its products enable customers to create, manage and deliver visually rich, compelling and reliable content. Based in San Jose, Calif., Adobe is one of the world's largest software companies.

###

© 2002 Adobe Systems Incorporated. All rights reserved. Adobe and the Adobe logo are either registered trademarks or trademarks of Adobe Systems Incorporated in the United States and/or other countries. All other trademarks are the property of their respective owners.

Adobe Systems Reports Fourth Quarter and Fiscal 2002 Results

Condensed Consolidated Statements of Income

(In thousands, except per share data)

	<u>Three Months Ended</u>		<u>Twelve Months Ended</u>	
	<u>November 29 2002 (Unaudited)</u>	<u>November 30 2001 (Unaudited)</u>	<u>November 29 2002 (Audited)</u>	<u>November 30 2001 (Audited)</u>
Revenue:				
Products	\$ 288,514	\$ 264,540	\$ 1,153,169	\$ 1,229,720
Services and support	<u>6,140</u>	<u>—</u>	<u>11,619</u>	<u>—</u>
Total revenue	<u>294,654</u>	<u>264,540</u>	<u>1,164,788</u>	<u>1,229,720</u>
Cost of revenue:				
Products	23,550	19,035	96,853	81,451
Services and support	<u>2,972</u>	<u>—</u>	<u>7,435</u>	<u>—</u>
Total cost of revenue	<u>26,522</u>	<u>19,035</u>	<u>104,288</u>	<u>81,451</u>
Gross profit	<u>268,132</u>	<u>245,505</u>	<u>1,060,500</u>	<u>1,148,269</u>
Operating expenses:				
Research and development	64,181	54,649	246,082	224,122
Sales and marketing	93,314	94,831	380,367	403,720
General and administrative	26,820	28,151	108,134	115,626
Restructuring and other charges	10,543	12,063	12,148	12,063
Acquired in-process research and development	—	—	5,769	—
Amortization and impairment of goodwill and purchased intangibles	<u>10,350</u>	<u>3,550</u>	<u>20,973</u>	<u>14,281</u>
Total operating expenses	<u>205,208</u>	<u>193,244</u>	<u>773,473</u>	<u>769,812</u>
Operating income	<u>62,924</u>	<u>52,261</u>	<u>287,027</u>	<u>378,457</u>
Nonoperating income, net:				
Investment loss	(3,792)	(5,898)	(17,185)	(93,414)
Interest and other income	<u>3,042</u>	<u>4,815</u>	<u>14,847</u>	<u>21,888</u>
Total nonoperating loss, net	<u>(750)</u>	<u>(1,083)</u>	<u>(2,338)</u>	<u>(71,526)</u>
Income before income taxes	62,174	51,178	284,689	306,931
Provision for income taxes	<u>22,085</u>	<u>16,889</u>	<u>93,290</u>	<u>101,287</u>
Net income	<u>\$ 40,089</u>	<u>\$ 34,289</u>	<u>\$ 191,399</u>	<u>\$ 205,644</u>
Basic net income per share	<u>\$.17</u>	<u>\$.15</u>	<u>\$.81</u>	<u>\$.86</u>
Shares used in computing basic net income per share	<u>233,838</u>	<u>236,361</u>	<u>236,834</u>	<u>238,461</u>
Diluted net income per share	<u>\$.17</u>	<u>\$.14</u>	<u>\$.79</u>	<u>\$.83</u>
Shares used in computing diluted net income per share	<u>238,407</u>	<u>243,411</u>	<u>243,119</u>	<u>249,145</u>

Condensed Consolidated Balance Sheets

(In thousands, except per share data)

	November 29 <u>2002</u>	November 30 <u>2001</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 183,684	\$ 218,662
Short-term investments	434,053	362,951
Receivables	116,506	124,106
Other receivables	30,367	18,299
Deferred income taxes	31,530	22,726
Other current assets	<u>18,032</u>	<u>20,620</u>
Total current assets	814,172	767,364
Property and equipment	71,090	77,611
Goodwill and other intangible assets, net	99,772	36,402
Other assets	42,126	37,652
Deferred income taxes, long-term	<u>24,450</u>	<u>11,594</u>
Total assets	<u>\$ 1,051,610</u>	<u>\$ 930,623</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade and other payables	\$ 37,765	\$ 30,891
Accrued expenses	135,028	128,831
Income taxes payable	173,311	132,228
Deferred revenue	<u>31,185</u>	<u>21,701</u>
Total current liabilities	<u>377,289</u>	<u>313,651</u>
Stockholders' equity:		
Common stock, \$0.0001 par value, and additional paid-in capital	739,849	625,386
Retained earnings	1,545,776	1,366,205
Accumulated other comprehensive income (loss)	(3,950)	3,918
Treasury stock at cost, net of reissuances	<u>(1,607,354)</u>	<u>(1,378,537)</u>
Total stockholders' equity	<u>674,321</u>	<u>616,972</u>
Total liabilities and stockholders' equity	<u>\$ 1,051,610</u>	<u>\$ 930,623</u>

Condensed Consolidated Statements Of Cash Flows(In thousands)
(Unaudited)

	Three Months Ended	
	November 29, 2002	November 30, 2001
Cash flows from operating activities:		
Net income	\$ 40,089	\$ 34,289
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	17,115	14,190
Stock compensation expense	997	14,103
Deferred income taxes	(1,001)	8,592
Provision for losses on receivables.....	1,101	527
Tax benefit from employee stock plans.....	2,246	2,784
Loss on impairment of property, plant, and equipment and goodwill	7,630	—
Loss on equity and cost method investments	2,725	1,612
Gain on sale of equity securities.....	—	(558)
Loss on other-than-temporary declines of equity securities	1,067	4,317
Changes in operating assets and liabilities:		
Receivables.....	24,611	25,367
Other current assets	5,575	5,155
Trade and other payables.....	4,897	141
Accrued expenses	5,996	(2,323)
Accrued restructuring.....	1,642	9,573
Income taxes payable	17,359	8,488
Deferred revenue.....	3,870	2,354
Net cash provided by operating activities.....	<u>135,919</u>	<u>128,611</u>
Cash flows from investing activities:		
Purchases of short-term investments.....	(129,272)	(148,838)
Maturities and sales of short-term investments	188,724	69,062
Acquisitions of property and equipment	(11,310)	(8,826)
Purchases of long-term investments	(5,511)	(2,759)
Additions to other assets.....	(3,197)	(2,754)
Proceeds from the sale of equity securities	—	386
Net cash provided by (used for) investing activities.....	<u>39,434</u>	<u>(93,729)</u>
Cash flows from financing activities:		
Purchase of treasury stock	(134,938)	(100,892)
Proceeds from exercise of stock options and sale of stock.....	4,772	(4,606)
Payment of dividends.....	(2,954)	(2,981)
Net cash used for financing activities	<u>(133,120)</u>	<u>(108,479)</u>
Effect of foreign currency exchange rates on cash and cash equivalents	97	(560)
Net increase (decrease) in cash and cash equivalents	42,330	(74,157)
Cash and cash equivalents at beginning of period	<u>141,354</u>	<u>292,819</u>
Cash and cash equivalents at end of period.....	<u>\$ 183,684</u>	<u>\$ 218,662</u>

Adobe Systems Reports Fourth Quarter and Fiscal 2002 Results

Pro Forma Results

(In thousands, except per share data)
(Unaudited)

The following table shows the Company's pro forma results reconciled to the Generally Accepted Accounting Principles ("GAAP") Condensed Consolidated Statements of Income table included on page 4 of this release. The Company's pro forma results do not include restructuring and other charges, acquired in-process research and development, amortization and impairment of goodwill and purchased intangibles, or gains and losses on investments in equity securities.

	<u>Three Months Ended</u>		<u>Twelve Months Ended</u>	
	<u>November 29</u> <u>2002</u>	<u>November 30</u> <u>2001</u>	<u>November 29</u> <u>2002</u>	<u>November 30</u> <u>2001</u>
Income before income taxes	\$ 62,174	\$ 51,178	\$ 284,689	\$ 306,931
Restructuring and other charges	10,543	12,063	12,148	12,063
Acquired in-process research and development	—	—	5,769	—
Amortization and impairment of goodwill and purchased intangibles	10,350	3,550	20,973	14,281
Investment loss	<u>3,792</u>	<u>5,898</u>	<u>17,185</u>	<u>93,414</u>
Pro forma income before income taxes	86,859	72,689	340,764	426,689
Income tax provision	<u>27,795</u>	<u>23,987</u>	<u>109,044</u>	<u>140,807</u>
Pro forma net income	<u>59,064</u>	<u>48,702</u>	<u>231,720</u>	<u>285,882</u>
Basic pro forma net income per share	<u>\$.25</u>	<u>\$.21</u>	<u>\$.98</u>	<u>\$ 1.20</u>
Shares used in computing basic net income per share	<u>233,838</u>	<u>236,361</u>	<u>236,834</u>	<u>238,461</u>
Diluted pro forma net income per share	<u>\$.25</u>	<u>\$.20</u>	<u>\$.95</u>	<u>\$ 1.15</u>
Shares used in computing diluted net income per share	<u>238,407</u>	<u>243,411</u>	<u>243,119</u>	<u>249,145</u>

The above results do not reflect GAAP, but are supplied to provide an alternative measure of our operating results.