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FOR IMMEDIATE RELEASE

## Adobe Systems Reports Strong First Quarter Fiscal 2003 Results

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

**SAN JOSE, Calif. — March 13, 2003 (NASDAQ: ADBE)** — Adobe Systems Incorporated, the leader in network publishing, today reported financial results for its first quarter ended February 28, 2003 that exceeded the Company's prior revenue and earnings per share target ranges.

In the first quarter of fiscal 2003, Adobe achieved revenue of \$296.9 million, compared to \$267.9 million reported for the first quarter of fiscal 2002 and \$294.7 million reported in the fourth quarter of fiscal 2002. Adobe's first quarter revenue target range was \$275 to \$290 million.

Pro forma diluted earnings per share for the first quarter of fiscal 2003, which does not include an investment loss from the Company's venture program, were \$0.25. Adobe's first quarter pro forma earnings target range was \$0.21 to \$0.23 per share.

"Our second consecutive quarter of double digit revenue growth is an excellent start to 2003," said Bruce Chizen, president and CEO. "These results are particularly encouraging given our strong product line up for the remainder of the year, beginning with a new version of Acrobat targeted to launch in Q2."

GAAP net income was \$54.2 million for the first quarter of fiscal 2003, compared to 49.8 million reported in the first quarter of fiscal 2002, and \$40.1 million in the fourth quarter of fiscal 2002. This represents 9 percent year-over-year growth in GAAP net income.

Pro forma net income, which does not include restructuring and other charges, acquired in-process research and development, and investment gains and losses, was \$58.9 million for the first quarter of fiscal 2003, compared to \$52.8 million in the first quarter of fiscal 2002, and \$59.1 million in the fourth quarter of fiscal 2002. This represents 12 percent year-over-year growth in pro forma net income.

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GAAP diluted earnings per share for the first quarter of fiscal 2003 were \$0.23, based on 235.3 million weighted average shares. This compares with diluted earnings per share of \$0.20 reported in the first quarter of fiscal 2002, based on 245.2 million weighted average shares, and diluted earnings per share of \$0.17 reported in the fourth quarter of fiscal 2002, based on 238.4 million weighted average shares.

Adobe's pro forma operating profit, which does not include the amortization of goodwill, restructuring and other charges, and acquired in-process research and development, was \$80.5 million in the first quarter of fiscal 2003, compared to \$72.7 million in the first quarter of fiscal 2002 and \$83.8 million in the fourth quarter of fiscal 2002. As a percent of revenue, pro forma operating profit for the first quarter was 27.1 percent, compared to 27.1 percent in the first quarter of fiscal 2002 and 28.4 percent in the fourth quarter of fiscal 2002.

For the second quarter of fiscal 2003, the Company announced that it is targeting revenue at \$300 to \$315 million, a gross margin of 92 percent, and, GAAP and pro forma operating margin ranges of 26 to 28 percent.

As a percent of revenue, Adobe is targeting second quarter expenses as follows:

Research & Development – approximately 21 to 22 percent

Sales & Marketing – approximately 33 to 34 percent

General & Administrative – approximately 10 percent

In addition, Adobe is targeting its share count range to be between 238 and 240 million shares in the second quarter of fiscal 2003. The Company also is targeting other income to be approximately \$2 to \$3 million, and a tax rate of 30 percent. These targets lead to GAAP and pro forma target ranges of \$0.24 to \$0.27 earnings per share in the quarter.

The Adobe Board of Directors declared this quarter's cash dividend of \$0.0125 per share, payable on April 7, 2003 to stockholders of record as of March 24, 2003.

### **Forward Looking Statements Disclosure**

This press release contains forward looking statements, including those related to revenue, earnings per share, expenses, margins, profitability and product releases, 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 or political conditions in any of the major countries in which we do business; introduction of new products by existing and new competitors; delays in shipment of our new products or major new versions of existing products; difficulties in transitions to new markets, including the enterprise, government, corporate business and consumer markets; inability to attract and retain key personnel; lack of market acceptance of new products and upgrades; weakness in demand for application software, computers, and printers; downward sales price adjustments; intellectual property disputes and litigation; industry transitions to new business models; renegotiation or termination of royalty or intellectual property licensing arrangements; changes in accounting rules; and market risks associated with our equity investments. For further discussion of these and other risks and

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uncertainties, individuals should refer to the Company's SEC filings, including the 2002 annual report on Form 10-K and quarterly reports on Form 10-Q to be filed in 2003. 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](http://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.

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### Condensed Consolidated Statements of Income

(In thousands, except per share data)

(Unaudited)

	<u>Three Months Ended</u>	
	<u>February 28</u> <u>2003</u>	<u>March 1</u> <u>2002</u>
Revenue:		
Products	\$ 290,755	\$ 267,896
Services and support	<u>6,140</u>	<u>—</u>
Total revenue	296,895	267,896
Cost of revenue:		
Products	19,360	20,997
Services and support	<u>3,002</u>	<u>—</u>
Gross profit	<u>274,533</u>	<u>246,899</u>
Operating expenses:		
Research and development	65,956	59,297
Sales and marketing	98,028	89,318
General and administrative	30,041	25,599
Acquired in-process research and development	—	5,359
Amortization of goodwill and purchased intangibles	<u>—</u>	<u>3,541</u>
Total operating expenses	<u>194,025</u>	<u>183,114</u>
Operating income	<u>80,508</u>	<u>63,785</u>
Nonoperating income, net:		
Investment gain (loss)	(6,692)	4,533
Interest and other income	<u>3,649</u>	<u>4,929</u>
Total nonoperating income (loss), net	<u>(3,043)</u>	<u>9,462</u>
Income before income taxes	77,465	73,247
Provision for income taxes	<u>23,240</u>	<u>23,439</u>
Net income	<u>\$ 54,225</u>	<u>\$ 49,808</u>
Basic net income per share	<u>\$ .23</u>	<u>\$ .21</u>
Shares used in computing basic net income per share	<u>231,084</u>	<u>236,581</u>
Diluted net income per share	<u>\$ .23</u>	<u>\$ .20</u>
Shares used in computing diluted net income per share	<u>235,294</u>	<u>245,245</u>

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### Condensed Consolidated Balance Sheets

(In thousands, except per share data)

	(Unaudited) February 28 <u>2003</u>	(Audited) November 29 <u>2002</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 142,097	\$ 183,684
Short-term investments	510,560	434,053
Receivables	135,626	116,506
Other receivables	23,313	30,367
Deferred income taxes	22,976	31,530
Other current assets	<u>18,475</u>	<u>18,032</u>
Total current assets	853,047	814,172
Property and equipment, net	70,228	71,090
Goodwill and other intangible assets, net	97,179	99,772
Other assets	41,134	42,126
Deferred income taxes, long-term	<u>26,243</u>	<u>24,450</u>
Total assets	<u>\$ 1,087,831</u>	<u>\$ 1,051,610</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Trade and other payables	\$ 34,191	\$ 37,765
Accrued expenses	145,521	135,028
Income taxes payable	178,202	173,311
Deferred revenue	<u>32,484</u>	<u>31,185</u>
Total current liabilities	<u>390,398</u>	<u>377,289</u>
Stockholders' equity:		
Common stock, \$0.0001 par value	29,576	29,576
Additional paid-in capital	718,286	710,273
Retained earnings	1,597,107	1,545,776
Accumulated other comprehensive income (loss)	(3,657)	(3,950)
Treasury stock at cost, net of reissuances	<u>(1,643,879)</u>	<u>(1,607,354)</u>
Total stockholders' equity	<u>697,433</u>	<u>674,321</u>
Total liabilities and stockholders' equity	<u>\$ 1,087,831</u>	<u>\$ 1,051,610</u>

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### Condensed Consolidated Statements of Cash Flows

(In thousands)  
(Unaudited)

	<b>Three Months Ended</b>	
	<b>February 28, 2003</b>	<b>March 1, 2002</b>
Cash flows from operating activities:		
Net income .....	\$ 54,225	\$ 49,808
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	11,992	13,803
Stock compensation expense .....	952	2,787
Deferred income taxes.....	5,744	2,751
Provision for losses on receivables.....	495	77
Tax benefit from employee stock plans.....	2,014	6,036
Loss on equity and cost method investments .....	3,554	2,236
Gain on sale of equity securities.....	(771)	(6,865)
Loss on other-than-temporary declines of equity securities.....	3,910	96
Changes in operating assets and liabilities:		
Receivables.....	(12,560)	(21,495)
Other current assets .....	(2,492)	2,066
Trade and other payables.....	(3,574)	3,552
Accrued expenses .....	14,410	(755)
Accrued restructuring.....	(4,742)	(7,900)
Income taxes payable .....	4,891	(10,048)
Deferred revenue.....	1,299	1,914
Net cash provided by operating activities.....	<u>79,347</u>	<u>38,063</u>
Cash flows from investing activities:		
Purchases of short-term investments.....	(124,464)	(380,564)
Maturities and sales of short-term investments .....	45,568	333,550
Acquisitions of property and equipment.....	(7,490)	(5,729)
Purchases of long-term investments .....	(2,193)	(3,018)
Additions to other assets.....	(1,323)	(9,031)
Proceeds from the sale of equity securities .....	1,764	10,308
Net cash used for investing activities.....	<u>(88,138)</u>	<u>(54,484)</u>
Cash flows from financing activities:		
Purchase of treasury stock .....	(45,207)	(10,952)
Proceeds from re-issuance of treasury stock.....	13,729	32,941
Payment of dividends.....	(2,887)	(2,961)
Net cash (used for) provided by financing activities .....	<u>(34,365)</u>	<u>19,028</u>
Effect of foreign currency exchange rates on cash and cash equivalents .....	1,569	(569)
Net (decrease) increase in cash and cash equivalents .....	(41,587)	2,038
Cash and cash equivalents at beginning of period .....	183,684	218,662
Cash and cash equivalents at end of period.....	<u>\$ 142,097</u>	<u>\$ 220,700</u>

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### 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>February 28</u>	<u>March 1</u>
	<u>2003</u>	<u>2002</u>
Income before income taxes	\$ 77,465	\$ 73,247
Acquired in-process research and development	—	5,359
Amortization of goodwill and purchased intangibles	—	3,541
Investment (gain) loss	<u>6,692</u>	<u>(4,533)</u>
Proforma income before income taxes	84,157	77,614
Income tax provision	<u>25,247</u>	<u>24,836</u>
Proforma net income	<u>58,910</u>	<u>52,778</u>
Basic proforma net income per share	<u>\$ .25</u>	<u>\$ .22</u>
Shares used in computing basic net income per share	<u>231,084</u>	<u>236,581</u>
Diluted net income per share	<u>\$ .25</u>	<u>\$ .22</u>
Shares used in computing diluted net income per share	<u>235,294</u>	<u>245,245</u>

The above results do not reflect GAAP, but are supplied because Adobe believes they help to more meaningfully evaluate and compare the results of our ongoing operations from quarter to quarter by removing certain non-operating items from the financial information.