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Adobe

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FOR IMMEDIATE RELEASE

Adobe Systems Reports Second Quarter Fiscal 2002 Results

Company Meets Targets With 18 Percent Sequential Revenue Growth; Sees Second Half Year-Over-Year Growth

SAN JOSE, Calif. — June 13, 2002 (NASDAQ: ADBE) — Adobe Systems Incorporated, the leader in network publishing, today reported financial results for its second quarter ended May 31, 2002.

In the second quarter of fiscal 2002, Adobe achieved revenue of \$317.4 million, compared to \$344.1 million reported for the second quarter of fiscal 2001 and \$267.9 million reported in the first quarter of fiscal 2002. Pro forma diluted earnings per share for the second quarter of fiscal 2002, which does not include restructuring and other charges, acquired in-process research and development, amortization of goodwill and purchased intangibles, and investment gains and losses, were \$0.27. Adobe's revenue and pro forma earnings per share results met the Company's original second quarter targets announced in March.

"Despite a continuing soft economy, we had a solid quarter with a strong release of Photoshop," said Bruce R. Chizen, president and chief executive officer of Adobe. "Strategically, we took steps to realize the large Acrobat opportunity in the enterprise with the closure of our Accelio acquisition and our new SAP relationship."

GAAP net income was \$54.3 million for the second quarter of fiscal 2002, compared to \$61.3 million reported in the second quarter of fiscal 2001, and \$49.8 million in the first quarter of fiscal 2002. Pro forma net income, which excludes restructuring and other charges, amortization of goodwill and purchased intangibles, acquired in-process research and development, and investment gains and losses, was \$67.4 million for the second quarter of fiscal 2002, compared to \$84.5 million in the second quarter of fiscal 2001, and \$52.8 million in the first quarter of fiscal 2002.

GAAP diluted earnings per share for the second quarter of fiscal 2002 were \$0.22, based on 247.7 million weighted average shares. This compares with diluted earnings per share of \$0.25 reported in the second quarter of fiscal 2001, based on 250.1 million weighted average shares, and diluted earnings per share of \$0.20 reported in the first quarter of fiscal 2002, based on 245.2 million weighted average shares.

Excluding restructuring and other charges, the amortization of goodwill and purchased intangibles, acquired in-process research and development, and investment gains and losses, Adobe's pro forma operating profit was \$96.4 million in the second quarter of fiscal 2002, compared to \$121.5 million in the second quarter of fiscal 2001 and \$72.7 million in the first quarter of fiscal 2002. As a percent of revenue, pro forma operating profit for the second quarter was 30.4 percent, compared to 35.3 percent in the second quarter of fiscal 2001 and 27.1 percent in the first quarter of fiscal 2002.

For the third quarter of fiscal 2002, the Company announced that it is targeting revenue of \$300 to \$320 million, a gross margin of 92 percent, and a pro forma operating margin of 28 to 30 percent. As a percent of revenue, Adobe is targeting expenses as follows:

Research & Development – approximately 20 to 21 percent

Sales & Marketing – approximately 33 to 34 percent

General & Administrative – approximately 9 to 10 percent

In addition, Adobe is targeting its share count range to be between 249 and 251 million shares in the third quarter of fiscal 2002. The Company is also targeting other income to be approximately \$3 million, and a tax rate of 32 percent. These targets lead to a pro forma earnings per share target range in the third quarter fiscal 2002 of \$0.24 to \$0.27 per share.

For the fourth quarter of fiscal 2002, the Company announced that its preliminary financial targets were revenue of \$315 to \$345 million, and pro forma earnings per share of \$0.26 to \$0.29.

The Adobe Board of Directors declared this quarter's cash dividend of \$0.0125 per share, payable on July 8, 2002 to stockholders of record as of June 25, 2002.

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: adverse changes in general 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; continuing adverse economic impact of the recent national tragedy on September 11, 2001; delays in shipment of our new products and major new versions of existing products; corporate reductions in marketing expenditures which may result in lower demand for professional content creation and layout products; lack of market acceptance of new products and upgrades; delays or problems associated with the integration of acquisitions; introduction of new products by major competitors; weakness in demand for application software and printers; lack of growth in worldwide personal computer and printer sales and downward sales price adjustments; renegotiation of royalty/licensing arrangements; litigation; consolidation in the OEM printing business; ongoing weakness in our printer business due to product transitions; industry transitions to new business and information delivery models; 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 to be 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, with annual revenues exceeding \$1.2 billion.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Three Months Ended		Six Months Ended	
	(Unaudited) May 31 2002	(Unaudited) June 1 2001	(Unaudited) May 31 2002	(Unaudited) June 1 2001
Revenue	317,359	344,093	585,255	673,062
Direct costs	<u>25,133</u>	<u>22,359</u>	<u>46,130</u>	<u>42,375</u>
Gross profit	<u>292,226</u>	<u>321,734</u>	<u>539,125</u>	<u>630,687</u>
Operating expenses:				
Research and development	62,858	59,597	122,155	115,284
Sales and marketing	103,898	109,582	193,216	213,442
General and administrative	29,066	31,075	54,665	61,445
Restructuring and other charges	1,605	—	1,605	—
Acquired in-process research and development	410	—	5,769	—
Amortization of goodwill and purchased intangibles	<u>3,541</u>	<u>3,581</u>	<u>7,082</u>	<u>7,163</u>
Total operating expenses	<u>201,378</u>	<u>203,835</u>	<u>384,492</u>	<u>397,334</u>
Operating income	<u>90,848</u>	<u>117,899</u>	<u>154,633</u>	<u>233,353</u>
Nonoperating income, net:				
Investment loss	(13,728)	(31,031)	(9,195)	(48,069)
Interest and other income	<u>2,735</u>	<u>4,632</u>	<u>7,664</u>	<u>10,329</u>
Total nonoperating loss, net	<u>(10,993)</u>	<u>(26,399)</u>	<u>(1,531)</u>	<u>(37,740)</u>
Income before income taxes	79,855	91,500	153,102	195,613
Provision for income taxes	<u>25,554</u>	<u>30,195</u>	<u>48,993</u>	<u>64,552</u>
Net income	<u>\$ 54,301</u>	<u>\$ 61,305</u>	<u>\$ 104,109</u>	<u>\$ 131,061</u>
Basic net income per share	<u>\$.23</u>	<u>\$.26</u>	<u>\$.44</u>	<u>\$.55</u>
Shares used in computing basic net income per share	<u>238,202</u>	<u>238,163</u>	<u>237,369</u>	<u>239,212</u>
Diluted net income per share	<u>\$.22</u>	<u>\$.25</u>	<u>\$.42</u>	<u>\$.52</u>
Shares used in computing diluted net income per share	<u>247,687</u>	<u>250,127</u>	<u>246,358</u>	<u>252,115</u>

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	(Unaudited) May 31 <u>2002</u>	(Audited) November 30 <u>2001</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 231,252	\$ 218,662
Short-term investments	468,660	362,951
Receivables	133,875	124,106
Other receivables	28,861	18,299
Deferred income taxes	26,743	22,726
Other current assets	<u>18,386</u>	<u>20,620</u>
Total current assets	907,777	767,364
Property and equipment, net	80,286	80,993
Goodwill and other intangible assets, net	114,061	36,402
Other assets	35,677	34,270
Deferred income taxes, long-term	<u>17,336</u>	<u>11,594</u>
Total assets	<u>\$ 1,155,137</u>	<u>\$ 930,623</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade and other payables	\$ 33,712	\$ 30,891
Accrued expenses	153,721	128,831
Income taxes payable	133,425	132,228
Deferred revenue	<u>25,796</u>	<u>21,701</u>
Total current liabilities	<u>346,654</u>	<u>313,651</u>
Stockholders' equity:		
Common stock, \$0.0001 par value, and additional paid-in capital	725,357	625,386
Retained earnings	1,464,342	1,366,205
Accumulated other comprehensive income (loss)	(6,576)	3,918
Treasury stock at cost, net of reissuances	<u>(1,374,640)</u>	<u>(1,378,537)</u>
Total stockholders' equity	<u>808,483</u>	<u>616,972</u>
Total liabilities and stockholders' equity	<u>\$ 1,155,137</u>	<u>\$ 930,623</u>

PRO FORMA RESULTS

(In thousands, except per share data)

The following table shows the Company's pro forma results reconciled to the Generally Accepted Accounting Principles ("GAAP") Consolidated Statements of Income table included on page 3 of this release. The Company's pro forma results do not include unusual or non-recurring events or transactions, restructuring and other charges, acquired in-process research and development, amortization of goodwill and purchased intangibles, or gains and losses on investments in equity securities.

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>May 31</u> <u>2002</u>	<u>June 1</u> <u>2001</u>	<u>May 31</u> <u>2002</u>	<u>June 1</u> <u>2001</u>
Income before income taxes	\$ 79,855	\$ 91,500	\$ 153,102	\$ 195,613
Restructuring and other charges	1,605	—	1,605	—
Acquired in-process research and development	410	—	5,769	—
Amortization of goodwill and purchased intangibles	3,541	3,581	7,082	7,163
Investment loss	<u>13,728</u>	<u>31,031</u>	<u>9,195</u>	<u>48,069</u>
Pro forma income before income taxes	99,139	126,112	176,753	250,845
Income tax provision	<u>31,724</u>	<u>41,617</u>	<u>56,561</u>	<u>82,779</u>
Pro forma net income	<u>67,415</u>	<u>84,495</u>	<u>120,192</u>	<u>168,066</u>
Basic pro forma net income per share	<u>\$.28</u>	<u>\$.35</u>	<u>\$.51</u>	<u>\$.70</u>
Shares used in computing basic net income per share	<u>238,202</u>	<u>238,163</u>	<u>237,369</u>	<u>239,212</u>
Diluted net income per share	<u>\$.27</u>	<u>\$.34</u>	<u>\$.49</u>	<u>\$.67</u>
Shares used in computing diluted net income per share	<u>247,687</u>	<u>250,127</u>	<u>246,358</u>	<u>252,115</u>

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