

Adobe Systems Reports Record Quarterly and Annual Revenue

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") Condensed Consolidated Statements of Income table included on page 5 of this release. The Company's pro forma results do not, as applicable, include restructuring and other charges, acquired in-process research and development, amortization and impairment of goodwill, or investment gains and losses.

	Three Months Ended			Twelve Months Ended	
	November 28, 2003	November 29, 2002	August 29, 2003	November 28, 2003	November 29, 2002
Income before income taxes	\$ 119,070	\$ 62,174	\$ 92,177	\$ 380,492	\$ 284,689
Restructuring and other charges	(105)	10,543	(439)	(544)	12,148
Acquired in-process research and development	—	—	—	—	5,769
Amortization and impairment of goodwill	—	10,350	—	—	20,973
Investment (gain) loss	(379)	3,792	2,996	12,875	17,185
Pro forma income before taxes	118,586	86,859	94,734	392,823	340,764
Provision for income taxes	35,576	27,795	28,420	117,847	109,044
Pro forma net income	\$ 83,010	\$ 59,064	\$ 66,314	\$ 274,976	\$ 231,720
Basic net income per share	\$ 0.35	\$ 0.25	\$ 0.28	\$ 1.17	\$ 0.98
Shares used in computing basic net income per share	235,899	233,838	233,364	234,246	236,834
Diluted net income per share	\$ 0.34	\$ 0.25	\$ 0.28	\$ 1.14	\$ 0.95
Shares used in computing diluted net income per share	245,512	238,407	240,495	241,450	243,119

Adobe continues to provide all information required in accordance with GAAP, but it believes that evaluating its ongoing operating results may not be as useful if an investor is limited to reviewing only GAAP financial measures. Accordingly, Adobe uses non-GAAP financial information, referred to in this press release as "pro forma," to evaluate its ongoing operations and for internal planning and forecasting purposes. Adobe's management does not itself, nor does it suggest that investors should, consider such pro forma financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. Adobe presents such pro forma financial measures in reporting its financial results to provide investors with an additional tool to evaluate Adobe's operating results in a manner that focuses on what Adobe believes to be its ongoing business operations. Adobe's management believes it is useful for itself and investors to review both GAAP information that includes the expenses, charges and investment gains and losses discussed below and the pro forma measures that exclude such expenses, charges and investment gains and losses in order to assess the performance of Adobe's business and for planning and forecasting in subsequent periods.

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Adobe's pro forma operating income excludes, as applicable, restructuring and other charges, the amortization and impairment of goodwill, and acquired in-process research and development. Pro forma net income and pro forma diluted earnings per share exclude, as applicable, restructuring and other charges, the amortization and impairment of goodwill, acquired in-process research and development, and investment gains and losses. Management believes that the inclusion of these pro forma financial measures provide consistency and comparability with past reports of financial results and has historically provided comparability to similar companies in Adobe's industry, many of which present the same or similar pro forma financial measures to investors. Whenever Adobe uses such a pro forma financial measure, it provides a reconciliation of the pro forma financial measure to the most closely applicable GAAP financial measure. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these pro forma financial measures to their most directly comparable GAAP financial measure as detailed above.

Adobe excludes restructuring and other charges, including (i) employee severance and other termination benefits, (ii) lease termination costs and other expenses associated with exiting facilities, and (iii) other costs associated with terminating contracts, from its pro forma financial measure of operating income and net income. Adobe's management does not consider these restructuring costs as a normal component of its expenses related to ongoing operations as such charges have occurred only periodically and have not been directly linked to the level of Adobe's business activities in the quarter in which such charges occur. As a result, Adobe's management believes it is useful for itself and investors to review both GAAP information that includes such charges and pro forma measures of operating income and net income that exclude these charges to have a better understanding of the overall performance of Adobe's ongoing business operations and its performance in the periods presented.

Beginning in the first quarter of fiscal 2003, in accordance with GAAP, goodwill is no longer amortized but is reviewed periodically for impairment. Upon our periodic review, we may deem goodwill to be impaired and therefore record an impairment charge. Both the impairment of goodwill and the amortization of goodwill in prior years result in no ongoing cash expenditures and otherwise have no material impact on Adobe's ongoing business operations. Similarly, from time to time, Adobe also undertakes strategic acquisitions and investments. The expenses related to such acquisitions and investments, such as acquired in-process research and development, are not directly related to Adobe's ongoing business activities in such periods. Consequently, Adobe excludes the acquired in-process research and development expenses from its pro forma financial measures.

In accordance with GAAP, Adobe incurs investment gains and losses from its venture program. These charges are otherwise unrelated to Adobe's ongoing business operations and are excluded from its pro forma financial information.