

**Q1 Fiscal 2010 Earnings Call Script  
FINAL Draft**

**MIKE SAVIAGE**

Good afternoon and thank you for joining us today.

Joining me on the call are Adobe's President and CEO, Shantanu Narayen, as well as Mark Garrett, Executive Vice President and CFO.

In the call today, we will discuss Adobe's first quarter fiscal year 2010 financial results. By now, you should have a copy of our earnings press release – which crossed the wire approximately one hour ago. If you need a copy of the press release, you can go to Adobe.com under the Company and Press links to find an electronic copy.

Before we get started, I want to emphasize that some of the information discussed in this call, particularly our revenue and operating model targets, and our forward-looking product plans, is based on information as of today, March 23<sup>rd</sup>, 2010, and contains forward-looking statements that involve risk and uncertainty. Actual results may differ materially from those set forth in such statements. For a discussion of these risks and uncertainties, you should review the Forward-Looking Statements Disclosure in the earnings press release we issued today, as well as Adobe's SEC filings.

During this call, we will discuss GAAP and non-GAAP financial measures. A reconciliation between the two is available in today's earnings release and on our investor relations website in the Investor data sheet.

Call participants are advised that the audio of this conference call is being broadcast live over the Internet in Adobe Connect, and is also being recorded for playback purposes. An archive of the call will be made available on Adobe's Investor Relations web site for approximately 45 days, and is the property of Adobe Systems. The audio and archive may not be re-recorded, or otherwise reproduced or distributed without prior written permission from Adobe Systems.

I will now like to turn the call over to Mark.

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Thanks Mike. For the first quarter of fiscal 2010, Adobe achieved revenue of \$858.7 million. This compares to \$786.4 million reported in Q1 fiscal 2009; and \$757.3 million reported last quarter. Our Q1 revenue includes \$87.7 million in Omniture revenue, but excludes \$14.9 million in deferred Omniture revenue in accordance with business combination accounting guidelines.

Our Q1 revenue benefitted from an extra week in the quarter due to our 52/53 week financial calendar, as we discussed in our December call – and which was factored into our financial targets. We estimate the net revenue benefit from the extra week to be approximately \$35 million in the quarter.

We entered the first quarter with approximately 9% of reported Q4 revenue in shippable backlog, and we exited the first quarter with approximately 6% of reported Q1 revenue in shippable backlog.

Q1 GAAP operating expenses were \$592.5 million, compared to \$501.1 million reported in Q1 fiscal 2009; and \$521.3 million last quarter. Non-GAAP operating expenses in Q1 were \$498.7 million, compared to \$428.6 million reported for Q1 fiscal 2009; and \$428.8 million last quarter.

GAAP operating income in Q1 fiscal 2010 was \$176.8 million, or 20.6% of revenue. This compares to GAAP operating income of \$207.9 million, or 26.4% of revenue in Q1 fiscal 2009, and \$153.6 million, or 20.3% of revenue last quarter.

Non-GAAP operating income in Q1 fiscal 2010 was \$289.3 million, or 33.7% of revenue. This compares to non-GAAP operating income of \$295 million, or 37.5% of revenue in Q1 fiscal 2009, and \$265.2 million, or 35% of revenue last quarter.

Adobe's effective GAAP tax rate in Q1 was 23.5%, and the non-GAAP tax rate was 25%. Our non-GAAP tax rate was approximately 1 point higher than our target of 24% due to the non-renewal of the R&D tax credit by Congress.

Q1 GAAP net income was \$127.2 million compared to \$156.4 million reported in Q1 fiscal 2009, and net loss of \$32.0 million last quarter. Non-GAAP net income in Q1 was \$211.7 million, compared to \$236.8 million reported in Q1 fiscal 2009, and \$206.8 million last quarter.

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GAAP diluted earnings per share for Q1 fiscal 2010 were 24 cents based on 532.6 million weighted average shares. This compares with GAAP diluted earnings per share of 30 cents reported in Q1 fiscal 2009, based on 527.8 million weighted average shares, and GAAP net loss per share of 6 cents reported last quarter, based on 532 million weighted average shares.

Non-GAAP diluted earnings per share for Q1 fiscal 2010 were 40 cents. This compares with non-GAAP diluted earnings per share of 45 cents in Q1 fiscal 2009, and 39 cents reported last quarter. The higher non-GAAP tax rate, due to the non-renewal of the R&D tax credit, reduced our Q1 non-GAAP earnings per share by approximately a penny.

I will now discuss Adobe's revenue in Q1 by business segment. As we discussed on our December call, beginning this quarter we have adjusted our reporting segments. Specifically, we have moved our Adobe Connect product from our Knowledge Worker segment to our Enterprise segment. Today's updated investor data sheet reflects this change, with our Knowledge Worker and Enterprise segment revenue restated back to fiscal 2006 for compare purposes.

In Q1, Creative Solutions segment revenue was \$432.0 million, compared to \$460.7 million in Q1 fiscal 2009, and \$429.3 million last quarter. This solid performance in front of the CS5 launch quarter was driven by continued stability in our CS business, as well as strong Photoshop and hobbyist product revenue.

Business Productivity Solutions revenue was \$245.8 million, compared to \$227.0 million in Q1 fiscal 2009, and \$211.8 million last quarter.

Within Business Productivity, Knowledge Worker revenue was \$165.9 million, compared to \$149.9 million in Q1 fiscal 2009, and \$131.8 million last quarter. Acrobat revenue rebounded strongly to start the new year, driven by an improving economy and seasonal strength in Japan and Asia.

Enterprise revenue was \$79.9 million, compared to \$77.1 million in Q1 fiscal 2009, and \$80.0 million last quarter. Connect had another strong quarter and our LiveCycle business experienced normal seasonality.

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Omniture segment revenue in Q1 was \$87.7 million. This did not include \$14.9 million of deferred revenue which was excluded due to purchase accounting. Omniture transactions grew to 1.23 trillion in the quarter, which represents 15% year-over-year growth for the similar period a year ago.

Platform revenue in Q1 was \$46.6 million, compared to \$52.3 million in Q1 fiscal 2009, and \$47 million last quarter.

Print and Publishing segment revenue was \$46.6 million, compared to \$46.4 million in Q1 fiscal 2009, and \$42.9 million last quarter.

Turning to our geographic segments, results on a percent of revenue basis were as follows:

The Americas 48%

Europe 32%

Asia 20%

We experienced continued stability in North America and Europe, as well as seasonal strength in Asia.

Employees at the end of Q1 totaled 8,355, versus 8,660 at the end of the fourth quarter. The reduction in heads quarter-over-quarter was due to the impact of the restructuring we implemented last fall.

Our trade DSO was 40 days, which compares to 35 days in the year-ago quarter, and 49 days last quarter.

Our global channel inventory position at the end of the quarter was within company policy.

During the quarter, cash flow from operations was \$260.0 million. Our ending cash and short-term investment position was \$2.7 billion, compared to \$1.9 billion at the end of last quarter. The increase reflects the impact of our debt offering during the quarter, less the subsequent repayment of our \$1 billion line of credit.

On January 25<sup>th</sup>, we announced a debt offering consisting of the pricing of two series of senior unsecured notes for an aggregate principal amount of \$1.5 billion. The notes consisted of two tranches: \$600 million of 3.25% notes due on February 1<sup>st</sup>, 2015; and \$900 million of 4.75% notes due on February 1<sup>st</sup>, 2020.

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The cost of the debt will run at approximately \$16 million per quarter and affect our earnings per share by slightly more than 2 cents per quarter. In Q1, the effect was only one cent due to the timing of the offering.

In Q1, we repurchased approximately 1.7 million shares at a total cost of \$60 million.

This concludes my discussion of our financial results. I would now like to comment on our financial targets for the second quarter of fiscal 2010.

We are targeting a Q2 revenue range of \$875 to \$925 million dollars. This target range excludes an estimated \$8.6 million in Omniture revenue in accordance with business combination accounting guidelines.

Assuming achievement of the midpoint of our targeted revenue range, our Q2 revenue expectations by business segment are as follows: we expect our creative business to increase sequentially because of the launch of CS5; we expect our Knowledge Worker and Omniture segments to decline slightly on a sequential basis factoring one less week of run-rate in Q2 versus Q1; we expect our enterprise business to grow sequentially, and our Platform and Print & Publishing businesses should be relatively flat in Q2 with revenue achieved in Q1. We expect all of our geographic segments to grow sequentially from Q1 to Q2 due to the CS5 launch.

For margins, we are targeting a Q2 GAAP operating margin range of 21.0 to 24.5%, and a non-GAAP operating margin range of 33.5 to 35.5%.

We are targeting our Q2 share count to be 531 million to 535 million shares.

We are targeting non-operating expense to be between \$16 million and \$18 million on both a GAAP and non-GAAP basis, due to the debt we put on our balance sheet with our bond offering in Q1.

For our Q2 GAAP and non-GAAP effective tax rates we are targeting approximately 25%, which excludes the R&D tax credit.

These targets lead to a GAAP earnings per share range of 23 to 30 cents per share, and a non-GAAP earnings per share range of 39 to 44 cents.

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Looking towards the second half of fiscal 2010, we remain excited about our opportunities and the strong product lineup we will deliver. Although we are not providing specific financial targets for the rest of the year today, assuming we achieve results within our Q2 financial target ranges, we believe our revenue and margin will grow sequentially through the remainder of the year.

This concludes my section. I'd now like to turn the call back over to Shantanu.

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**SHANTANU NARAYEN**

Thanks Mark.

I'm pleased with the progress we're making against our strategic and business objectives.

The Flash Platform continued to show significant momentum this quarter. At Mobile World Congress we made several announcements – including news that a beta of Flash Player 10.1 was made available to content providers and mobile developers worldwide. With general availability expected beginning in Q2, 10.1 is the first runtime release of the Open Screen Project enabling uncompromised Web browsing of expressive content, high definition video, and rich applications – across multiple screens including desktops, smartphones, netbooks, internet-connected TVs, new tablet devices and other consumer electronics.

The Open Screen Project is an industry-wide initiative led by Adobe that now includes 70 ecosystem partners. We have been working closely with our OSP partners to enable the deployment of Flash Player on Google Android, the Blackberry OS, the Symbian OS, the Palm webOS and Windows Phone Series 7 devices. You can expect to see some of these devices starting to ship with Flash Player in the first half of this year, and quickly ramping throughout this year and next.

We also unveiled Adobe AIR 2.0 for mobile devices, a consistent runtime for the delivery of standalone mobile device applications. AIR leverages mobile specific features from Flash Player 10.1, is optimized for high performance on mobile screens, and designed to take advantage of native device capabilities for a richer and more immersive user experience. We expect to roll out AIR support for mobile platforms later this year.

In our Creative Solutions business, we continue to focus on delivering an integrated authoring suite for all media platforms, including Flash and HTML. In Q1, our CS business remained stable, and our Photoshop and hobbyist products posted strong results. In our video business, we continue to transition marquee media and broadcast accounts to the Flash Platform for the delivery of video over the Web.

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We're seeing an unprecedented amount of change happening on the Web, in publishing, and across all forms of media and advertising. Creation and consumption of content is transforming rapidly as people engage across a growing array of devices – and this is driving significant changes in the business and distribution models of content owners and publishers. Against the backdrop of this changing environment, we are excited about the upcoming launch of CS5.

It will be a phenomenal release, rich with innovative “wow” features, new products, and integrated workflows. It will enable an even broader set of designers and developers to more effectively create, deliver and measure engaging experiences across media and devices. On April 12<sup>th</sup> we will host an online event to launch CS5, which is on track to ship in major languages late in Q2.

Our Omniture solutions will enable our customers to measure and optimize rich content, including that created in our CS applications. In Q1, we achieved record quarterly revenue for the Omniture business, with strong sales momentum, a 95% enterprise customer retention rate, and the addition of over 150 new customers, including Air Canada, REI, CareerBuilder, Forbes.com, and Terra Networks – Latin America's largest Internet company.

Integration of the two companies is going well and we are meeting all of our major milestones. We will debut product integration with CS5, and are already seeing benefits of a combined sales organization.

Earlier this month we held the annual Omniture Summit. At that event, we announced version 2.0 of the Omniture Online Marketing Suite. We also provided details about an exciting new business relationship with Facebook, which will enable marketers to buy highly targeted Facebook ads using Omniture's SearchCenter Plus – and then measure the performance of those ads in the context of their overall media spend.

We continue to leverage our PDF franchise in the enterprise. In our Knowledge Worker segment, Acrobat got off to a great start in 2010, driving strong year-over-year and sequential growth in Q1. Acrobat.com now has over 10 million users, and we are excited about extending Acrobat functionality with Acrobat.com services in the next Acrobat release later this year.

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In our Enterprise business segment, Connect had another strong quarter as government agencies and enterprises continued to adopt our Flash-based Web Conferencing solution. We also continued to work with customers such as Northwestern Mutual Life, T-Mobile and the California Department of Motor Vehicles to deliver LiveCycle solutions to extend the value of existing back-office systems. With LiveCycle ES2, we are enabling developers to build and deploy customer interaction solutions quickly and easily, and empowering business users to manage application environments based on their specific needs.

**SHANTANU – CLOSING REMARKS**

Our strong Q1, combined with upcoming launches of our flagship products over the next several quarters, make us bullish about the remainder of the year.

Thank you for joining us today. Now, I'll turn the call back over to Mike.

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**MIKE SAVIAGE**

Thanks Shantanu.

Before we begin Q&A, I'd like to cover a few housekeeping items.

First, as Mark discussed, we have updated our reporting segments. Adobe Connect revenue is now included as part of our Enterprise segment starting in Q1. This means our Knowledge Worker segment will contain Acrobat product family revenue going forward, whereas our Enterprise segment will contain LiveCycle and Connect revenue. The investor data sheet we are providing today contains a table showing this new segment classification, as well as restated historical business segment revenue for comparison purposes.

Second, as Shantanu mentioned, there will be an online event on April 12<sup>th</sup> to announce CS5.

Invitations and information regarding how to register for the event will be made available later today.

In regard to today's earnings report, we have posted several documents on our Investor Relations Web page today – including a copy of the script containing our prepared remarks for today's call. To access these documents and other investor-related information, you can go to our web site at [www.adobe.com/ADBE](http://www.adobe.com/ADBE).

For those who wish to listen to a playback of today's conference call, a Web-based Adobe Connect archive of the call will be available from the IR page on Adobe.com later today. Alternatively, you can listen to a phone replay by calling 888-203-1112; use conference ID #4296476. Again, the phone number is 888-203-1112 with ID #4296476. International callers should dial 719-457-0820. The phone playback service will be available beginning at 4pm Pacific Time today, and ending at 4pm Pacific Time on Friday March 26, 2010.

We would now be happy to take your questions. Operator.