

**Q2 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 second 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, June 22nd, 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 Shantanu.

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SHANTANU NARAYEN

Thanks Mike and good afternoon.

In Q2 we achieved record revenue of \$943 million, with non-GAAP earnings per share of 44 cents. In addition to a successful CS5 launch, we had solid results across all of our businesses and geographies. We continue to execute well against our strategic goals, providing great value to our customers, which is resulting in strong performance.

I'll spend a few minutes discussing Q2 business highlights. Then Mark will provide additional details about the quarter and our financial targets. Following that, I will close with a discussion on our longer-term objectives and we'll take your questions.

In our Creative Solutions business, positive product reviews, industry buzz and pent-up customer demand drove strong Creative Suite 5 adoption in all major geographic regions in the quarter. Our team has delivered an amazing set of products with new innovative features, performance improvements, and workflow enhancements to help customers deliver rich and engaging content across media types, platforms and devices.

Our strategy to drive more Suites adoption and revenue is succeeding: 71% of the CS5 product family revenue we achieved in Q2 was Suites-based, an all-time high. We are also seeing success with our video editing tools, which helped drive strong growth for our video solutions including Master Collection. While early in the cycle, CS5 sales were particularly strong on the Mac.

In Q2, we also made progress against two long-term strategic goals: we achieved record Creative Suite orders on Adobe.com, and record revenue in the education market.

Based on initial results and feedback from customers, we believe the adoption of CS5 will remain strong through the end of this year and into next year as large customers evaluate and transition to the new release.

Our Omniture business had another solid quarter in Q2, with strong bookings and the addition of more than 100 net new customers. Awareness of the strategic value Adobe can provide across an entire workflow involving creation, delivery and optimization is resonating with our big enterprise customers.

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In fact, we booked a significant multi-year enterprise win for more than \$6 million that spanned all major Adobe products from creative tools to LiveCycle and Omniture solutions.

In our Acrobat business, the strength we experienced in Q4 and Q1 continued through Q2. Enterprise licensing was particularly strong, demonstrating the Acrobat and PDF value proposition continues to resonate with large customers. We are on track to deliver a new version of Acrobat late in Q4 that will focus on enabling knowledge workers and enterprises to collaborate across critical document workflows.

In our enterprise segment, both Connect and LiveCycle had a strong bookings quarter and continue to gain traction in key vertical markets such as government and financial services.

Enabling our customers to deliver engaging experiences across multiple devices remains a focus of the company. Today we announced availability of Flash Player 10.1 for mobile devices, which delivers on the promise of enabling access to the full web across desktops and devices. We expect millions of devices to ship with 10.1 in the second half of 2010.

Flash is strategic for Adobe because it delivers great value to our customers. Approximately 3.5 million Flash designers and developers are working with Flash-based solutions today, and their ranks grew by 59 percent in 2009. The new release of Flash Player creates a whole new sandbox for these millions of designers and developers to create next-generation content, advertising, games, applications and experiences. We've already seen that those who have been using the new Flash Player on Android phones love it; and as devices start to ship with Flash during the rest of the year, those that don't have Flash on their smartphones will wish they did.

Now I'll turn the call over to Mark for more commentary on our financial results, then I will close with some remarks on our longer-term strategic outlook.

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Thanks Shantanu.

For the second quarter of fiscal 2010, Adobe achieved record revenue of \$943 million. This compares to \$704.7 million reported in Q2 fiscal 2009; and \$858.7 million reported last quarter. Our Q2 revenue includes \$83.5 million in Omniture revenue, but excludes \$8.7 million in deferred Omniture revenue in accordance with business combination accounting guidelines. As a reminder, Q1 fiscal 2010 included an extra week of revenue due to our 52/53 week financial calendar – and should be factored when making sequential quarter comparisons.

We entered the second quarter with approximately 6% of reported Q1 revenue in shippable backlog, and we exited the second quarter with approximately 7% of reported Q2 revenue in shippable backlog.

Q2 GAAP operating expenses were \$607.9 million, compared to \$471.3 million reported in Q2 fiscal 2009; and \$592.5 million last quarter. Non-GAAP operating expenses in Q2 were \$520.2 million, compared to \$410.6 million reported for Q2 fiscal 2009; and \$498.7 million last quarter. Given the strength of our business in the first half of 2010, we decided to invest more in sales and marketing during the quarter.

GAAP operating income in Q2 fiscal 2010 was \$227.3 million, or 24.1% of revenue. This compares to GAAP operating income of \$161.4 million, or 22.9% of revenue in Q2 fiscal 2009, and \$176.8 million, or 20.6% of revenue last quarter.

Non-GAAP operating income in Q2 fiscal 2010 was \$334.5 million, or 35.5% of revenue. This compares to non-GAAP operating income of \$237.7 million, or 33.7% of revenue in Q2 fiscal 2009, and \$289.3 million, or 33.7% of revenue last quarter

Adobe's effective GAAP tax rate in Q2 was 23.5%, and the non-GAAP tax rate was 25%. Our non-GAAP tax rate remains higher this quarter due to the expiration of the R&D tax credit.

Q2 GAAP net income was \$148.6 million compared to \$126.1 million reported in Q2 fiscal 2009, and \$127.2 million last quarter. Non-GAAP net income in Q2 was \$234.2 million, compared to \$185 million reported in Q2 fiscal 2009, and \$211.7 million last quarter.

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GAAP diluted earnings per share for Q2 fiscal 2010 were 28 cents based on 533.3 million weighted average shares. This compares with GAAP diluted earnings per share of 24 cents reported in Q2 fiscal 2009, based on 528.0 million weighted average shares, and GAAP diluted earnings per share of 24 cents reported last quarter, based on 532.6 million weighted average shares.

Non-GAAP diluted earnings per share for Q2 fiscal 2010 were 44 cents. This compares with non-GAAP diluted earnings per share of 35 cents in Q2 fiscal 2009, and 40 cents reported last quarter.

I will now discuss Adobe's results in Q2 by business segment.

Creative Solutions segment revenue was \$532.7 million, compared to \$411.7 million in Q2 fiscal 2009, and \$432.0 million last quarter. This 29% year-over-year growth was driven by strong performance in our CS business in all major geographies – both with CS4 in the first two months of the quarter, and then with the newly released CS5 in the last five weeks of the quarter.

With a strong finish, CS4 finished by lagging the revenue achieved with CS3 by 17%. While it's still early days with our new release, we can make these comments about the first five weeks of CS5 results:

- Comparing similar periods of availability for CS5 and CS4 products, CS5 revenue is exceeding what we achieved with CS4 by approximately 15%.
- Regarding ranking of Suites by revenue, results are consistent with the CS4 cycle... Design Premium, Design Standard and Master Collection remain the best selling suites.
- And, CS5 products containing Flash authoring and output as a product component achieved revenue growth of 22% version-over-version to date.

To better reflect the charter of our enterprise business, we renamed our Business Productivity business unit to Digital Enterprise Solutions – and it continues to include our Knowledge Worker and Enterprise reporting segments. Digital Enterprise Solutions Q2 revenue was \$232.7 million, compared to \$209.7 million in Q2 fiscal 2009, and \$245.8 million last quarter.

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Within Digital Enterprise Solutions, Knowledge Worker revenue was \$156 million, compared to \$137.8 million in Q2 fiscal 2009, and \$165.9 million last quarter. Acrobat revenue grew 13% year-over-year, and the weekly run-rates of licensing and shrinkwrap revenue remained consistent with the solid results we achieved in Q1.

Enterprise revenue was \$76.7 million, compared to \$71.9 million in Q2 fiscal 2009, and \$79.9 million last quarter. We achieved 12% year-over-year growth with LiveCycle, and we had a strong bookings quarter for both LiveCycle and Connect. With a solid pipeline in both businesses, we continue to expect this segment to grow sequentially on a go-forward basis.

In our Omniture segment, we achieved \$83.5 million in reported revenue, which is down sequentially when compared to Q1 as expected due to Q1 having an extra week in the quarter. Excluding the accounting write-down of \$8.7 million of deferred revenue in Q2, reported revenue would have been \$92.2 million. Omniture transactions grew to 1.26 trillion in Q2, up from 1.23 trillion in Q1 – and up by more than 12% on a year-over-year basis for the equivalent period of time last year. Revenue from our optimization products grew to 43% of Omniture revenue, demonstrating the value proposition of the entire Online Marketing Suite is resonating with customers.

Platform revenue in Q2 was \$45.4 million, compared to \$36.8 million in Q2 fiscal 2009, and \$46.6 million last quarter.

Finally, Print and Publishing segment revenue was \$48.7 million, compared to \$46.5 million in Q2 fiscal 2009, and \$46.6 million last quarter.

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

The Americas 48%

Europe 29%

Asia 23%

We continued to experience stability in our business in all our major geographies, and have not seen any impact to our business in Europe as a result of the debt crisis.

Employees at the end of Q2 totaled 8541, versus 8,355 at the end of the last quarter.

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Our trade DSO was 42 days, which compares to 34 days in the year-ago quarter, and 40 days last quarter. The slight increase was due to timing of the CS5 launch, as well as an increase in deferred revenue.

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

During the quarter, cash flow from operations was \$251 million. A non-recurring item related to taxes for the Omniture acquisition reduced operating cash flow by approximately \$119 million. Our ending cash and short-term investment position was \$2.6 billion, compared to \$2.7 billion at the end of Q1.

In Q2, we repurchased approximately 2.5 million shares at a total cost of \$84.7 million.

We also announced today our Board has approved an amendment to our existing stock repurchase program that modifies it from a share-based authority program to offset dilution – to a dollar-based authority. As part of this amendment, Adobe can repurchase up to \$1.6 billion in common stock through the end of fiscal 2012. The repurchases will be funded from available working capital.

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

We are targeting a Q3 revenue range of \$950 million to \$1 billion dollars. This target range excludes an estimated \$5 million in Omniture revenue in accordance with business combination accounting guidelines.

Assuming achievement of the midpoint of our targeted revenue range, our Q3 revenue expectations by business segment are as follows: we expect our Creative business to grow slightly in Q3 when compared to revenue achieved in Q2; we expect our enterprise and our Omniture businesses to grow sequentially; and we expect Knowledge Worker, Platform and Print & Publishing businesses to be essentially flat with revenue achieved in Q2.

For margins, we are targeting a Q3 GAAP operating margin range of 25.5% to 27.5%, and a non-GAAP operating margin range of 36% to 37%.

We are targeting our Q3 share count to be 532 million to 534 million shares.

We are targeting non-operating expense to be between \$12.5 million and \$13.5 million on both a GAAP and non-GAAP basis.

For our Q3 GAAP and non-GAAP effective tax rates we are targeting approximately 25%.

These targets lead to a GAAP earnings per share range of 32 to 37 cents per share, and a non-GAAP earnings per share range of 46 to 50 cents.

In Q4, we expect margins to be approximately the same as those targeted in Q3. We also expect Q4 revenue to grow sequentially from Q3.

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

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SHANTANU NARAYEN

Thanks Mark.

Adobe is one of the most diversified software companies in the world. Market trends and dynamics in the industry are positively affecting all of our major businesses, and creating significant opportunities. These opportunities relate to the ongoing explosion of digital content, and the challenges our customers face in creating, delivering and optimizing that content.

Every customer I meet expresses a desire to get more value from their content. They want to engage with their constituents more easily and more quickly in a cost-effective manner. They want to migrate their business online. They want to extend their brand using the newest means available to them, such as behavioral targeting. They want to replace inefficient paper-based workflows with digital document workflows. They want to enable rich, engaging experiences on the Web, and provide access to their information to reach across every screen in a consumer's life. This is a massive opportunity.

Innovation and our execution against opportunities like this have driven our growth for more than 25 years. We enable our customers to create engaging experiences, deliver them across multiple devices, and optimize and monetize their brand and assets. Our approach has always been to enable these capabilities in ways that are operating system, platform and format agnostic. We have created widely-used standards such as Postscript, Flash and PDF; and support other industry standards such as JPEG, HTML and H.264.

Given this strategic market position; given our strong brand and the use of our products by tens of millions of customers; given the ubiquitous reach of our solutions across hundreds of millions of PCs and devices; and given the track record of consistent execution against our strategy and financial targets, we believe Adobe is significantly undervalued today.

We are going to take advantage of what we believe is an undervalued stock price, and as Mark mentioned earlier, we will aggressively buy back our stock utilizing excess cash and the strong cash flow that our business generates.

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By fiscal 2012, our goal is to achieve \$5 billion in revenue. We plan to drive double-digit growth in our existing businesses, and supplement that with strategic small- and medium-sized M&A. We have demonstrated with our successful acquisitions of Macromedia, Scene7 and Omniture that we can expand our market opportunity and drive incremental growth while enhancing our strategic relationship with a broad set of customers.

Given our focus on expanding our value proposition and driving top line growth, we expect to deliver operating margins consistent with what we plan to achieve in fiscal 2010. We anticipate delivering earnings growth at a rate that meets or exceeds our top line growth rate, and we expect to maintain the delivery of strong operating cash flow.

Adobe has always been at the heart of making engaging experiences happen. We fuel the content creation and delivery ecosystem in a way no other technology company can, which will drive revenue and earnings growth in the years to come.

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.

We have announced the dates for Adobe MAX, which will be held again this year in Los Angeles. Every year, MAX brings together thousands of Adobe users, developers and partners, and is a great time to see Adobe in action. This year, MAX will occur during the week of October 25th, and like last year, we will host a financial analyst meeting on Wednesday during MAX. Please save the date and mark your calendars to attend MAX, as well as our analyst meeting on Wednesday October 27th. The analyst meeting will be condensed to a half day this year, starting in the morning and ending with a lunch with Adobe management. You can learn more about MAX at the MAX website, max.adobe.com. Formal invitations for our analyst day will be sent out this summer.

For many years we've offered a service whereby investors and analysts can sign up on Adobe.com to receive Adobe press releases via email when they cross the wire. During the remainder of fiscal 2010, we will begin to phase out this email service. In its place we are offering today several RSS feeds that you can subscribe to on Adobe.com. Our Investor Relations Web page provides RSS feed information to subscribe to Adobe press releases, as well as the Quick Links investor relations page for new investor-related documents. By subscribing to these RSS feeds, your RSS reader will be notified when new documents are posted to these locations by Adobe and give you easy access to them. We've also added a new link on the IR page of Adobe.com which points to Adobe's corporate blog feed. Adobe utilizes these Web delivery capabilities as a means to communicate material information to the financial community. For reference, we've posted these URLs in the Connect archive of today's call.

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 the other investor-related information I've highlighted, you can go to our web site at www.adobe.com/ADBE.

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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 #5434821. Again, the phone number is 888-203-1112 with ID #5434821. 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 June 25th, 2010.

We would now be happy to take your questions. In addition to questions that come in from those participating on the live phone call, we have also enabled the Question pod in the Connect session. So those on the Connect session – feel free to send in your questions and we'll try to take a few in addition to those that come in via the phone line. Operator, we'll take the first question from the phones.