

Adobe Systems Reports Record Revenue in Second Quarter of Fiscal 2005

Non-GAAP Results

(In thousands, except per share data)

The following table shows Adobe's non-GAAP results reconciled to GAAP results included in this release.

	Three Months Ended		
	June 3, 2005	June 4, 2004	March 4, 2005
GAAP net income	\$ 149,778	\$ 109,401	\$ 151,894
Investment (gain) loss, net of tax	2,035	(646)	1,157
Net tax impact on foreign earnings repatriation	(8,931)	—	(19,297)
Non-GAAP net income	<u>\$ 142,882</u>	<u>\$ 108,755</u>	<u>\$ 133,754</u>
Diluted net income per share:			
GAAP net income	\$ 0.29	\$ 0.22	\$ 0.30
Investment gain, net of tax	0.01	0.00	0.00
Net tax impact on foreign earnings repatriation	(0.02)	—	(0.04)
Non-GAAP net income	<u>\$ 0.28</u>	<u>\$ 0.22</u>	<u>\$ 0.26</u>
Shares used in computing diluted net income per share	<u>508,156</u>	<u>493,946</u>	<u>506,182</u>

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 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 non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. Adobe presents such non-GAAP 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 investment gains and losses and the net tax impact of the planned repatriation of certain foreign earnings discussed below, and the non-GAAP measures that exclude such information in order to assess the performance of Adobe's business and for planning and forecasting in subsequent periods.

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 non-GAAP financial information.

Also, in accordance with GAAP, Adobe included the net tax impact of the planned repatriation of certain foreign earnings. This tax impact is not indicative of Adobe's ongoing business operations and thus is excluded from its non-GAAP financial information.