

**Page 7 of 10**  
**Adobe Reports Solid Third Quarter Financial Results**

**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.

	September 1, 2006	September 2, 2005	June 2, 2006
GAAP operating income	\$ 110,033	\$ 183,558	\$ 147,908
SFAS 123R stock-based compensation*	27,186	—	26,622
Amortization of Macromedia deferred compensation*	15,471	—	15,259
Restructuring and other charges	32	—	1,235
Amortization of purchased intangibles and incomplete technology (a)	54,527	—	52,041
Non-GAAP operating income	<u>\$ 207,249</u>	<u>\$ 183,588</u>	<u>\$ 243,065</u>
GAAP net income	\$ 94,396	\$ 144,916	\$ 123,097
SFAS 123R stock -based compensation, net of tax	20,487	—	19,085
Amortization of Macromedia deferred compensation, net of tax	11,659	—	10,939
Restructuring and other charges, net of tax	24	—	885
Amortization of purchased intangibles and incomplete technology, net of tax	41,092	—	37,308
Investment (gain)loss, net of tax	3,831	1,527	(1,909)
Non-GAAP net income	<u>\$ 171,489</u>	<u>\$ 146,443</u>	<u>\$ 189,405</u>
Diluted net income per share:			
GAAP net income	\$ 0.16	\$ 0.29	\$ 0.20
SFAS 123R stock -based compensation, net of tax	0.03	—	0.03
Amortization of Macromedia deferred compensation, net of tax	0.02	—	0.02
Restructuring and other charges, net of tax	0.00	—	0.00
Amortization of purchased intangibles and incomplete technology, net of tax	0.07	—	0.06
Investment (gain)loss, net of tax	0.01	0.00	0.00
Non-GAAP net income	<u>\$ 0.29</u>	<u>\$ 0.29</u>	<u>\$ 0.31</u>
Shares used computing diluted net income per share	<u>600,882</u>	<u>507,821</u>	<u>613,804</u>

(a) See table below for classification on the Consolidated Statements of Income.

**Page 8 of 10**  
**Adobe Reports Solid Third Quarter Financial Results**

The following table shows the Company's classification of SFAS 123R stock-based compensation, amortization of Macromedia deferred compensation, and amortization of purchased intangibles and incomplete technology on the Consolidated Statements of Income for the quarter ended September 1, 2006.

Income Statement Classifications	<u>Total Stock-based Compensation</u>		Amortization of Purchased Intangibles and Incomplete Technology	
	SFAS 123R	Amortization of Macromedia Deferred Compensation(a)		
Cost of revenue – products	\$ —	\$ —	\$ 34,534	(b)
Cost of revenue – services and support	569	249		
Research and development	11,983	802	2,300	(c)
Sales and marketing	8,979	14,104	—	
General and administrative	5,655	316	—	
Amortization of purchased intangibles	—	—	17,693	(b)
Total	<u>\$ 27,186</u>	<u>\$ 15,471</u>	<u>\$ 54,527</u>	

(b) Relates to Macromedia acquisition

(c) Charge for incomplete technology related to a small acquisition

The following table shows the Company's reconciliation of non-GAAP to GAAP operating expenses as a percent of revenue and effective tax rate for the quarter ended September 1, 2006.

	<u>Operating Expense as a Percent of Revenue</u>			<u>Effective Tax Rate</u>
	<u>Research and Development</u>	<u>Sales and Marketing</u>	<u>General and Administrative</u>	
GAAP	21.7%	36.1%	9.5%	23.3%
SFAS 123R stock-based compensation	(2.0%)	(1.6%)	(0.9%)	(0.7%)
Amortization of Macromedia deferred compensation	(0.1%)	(2.3%)	(0.1%)	1.0%
Amortization of purchased intangibles and incomplete technology	(0.4%)	—	—	0.3%
Non-GAAP	<u>19.2%</u>	<u>32.2%</u>	<u>8.5%</u>	<u>23.9%</u>

The following table shows the Company's reconciliation of non-GAAP to GAAP operating expenses for the quarter ended September 1, 2006.

	<u>Operating Expenses</u>
GAAP	\$ 422,679
SFAS 123R stock –based compensation	(26,617)
Amortization of Macromedia deferred compensation	(15,222)
Restructuring and other charges	(32)
Amortization of purchased intangibles and incomplete technology	(19,993)
Non-GAAP	<u>\$ 360,815</u>

**Page 9 of 10**  
**Adobe Reports Solid Third Quarter Financial Results**

The following table shows the Company's reconciliation of non-GAAP to GAAP gross margin for the quarter ended September 1, 2006.

	<u>Gross Margin</u>
GAAP	88.5%
SFAS 123R stock –based compensation	0.1%
Amortization of Macromedia deferred compensation	0.0%
Amortization of purchased intangibles and incomplete technology	5.7%
Non-GAAP	<u>94.3%</u>

**Fourth Quarter Fiscal Year 2006 Non-GAAP Financial Targets**

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

	<u>Fourth Quarter Fiscal 2006</u>	
	<u>Low</u>	<u>High</u>
GAAP operating margin	21%	24%
Amortization of purchased technology	5	5
Amortization of purchased intangibles	3	2
SFAS 123R stock-based compensation	6	6
Amortization of Macromedia deferred compensation	2	1
Non-GAAP operating margin	<u>37%</u>	<u>38%</u>
Diluted net income per share:		
GAAP net income per share	\$ 0.19	\$ 0.22
Amortization of purchased technology, net of tax	0.04	0.04
Amortization of purchased intangibles, net of tax	0.02	0.02
SFAS 123R stock-based compensation, net of tax	0.06	0.05
Amortization of Macromedia deferred compensation, net of tax	0.01	0.01
Non-GAAP net income per share	<u>\$ 0.32</u>	<u>\$ 0.34</u>
Shares used in computing diluted net income per share	<u>602.0</u>	<u>600.0</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

**Page 10 of 10**  
**Adobe Reports Solid Third Quarter Financial Results**

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, as applicable, both GAAP information that includes the stock compensation impact of SFAS 123R, restructuring and other charges, amortization of purchased intangibles and incomplete technology, amortization of Macromedia deferred compensation, investment gains and losses, tax differences related to the timing and deductibility of the Macromedia acquisition-related charges and SFAS 123R stock-based compensation, 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. Whenever Adobe uses such a non-GAAP financial measure, it provides a reconciliation of the non-GAAP 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 non-GAAP financial measures to their most directly comparable GAAP financial measure as detailed above.

For all fiscal 2006 periods presented, Adobe's GAAP financial information and targets include the stock compensation impact of SFAS 123R, restructuring and other charges, amortization of purchased intangibles and incomplete technology, amortization of Macromedia deferred compensation, and tax differences related to the timing and deductibility of the Macromedia acquisition-related charges and SFAS 123R stock-based compensation. Also, 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 and targets.