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Adobe Reports Strong Q3 Financial Results

Non-GAAP Results

(In thousands, except per share data)

The following tables show the Company's non-GAAP results reconciled to GAAP results included in this release for the quarters ended August 29, 2008, August 31, 2007 and May 30, 2008.

	Three Months Ended		
	August 29, 2008	August 31, 2007	May 30, 2008
Operating income:			
GAAP operating income	\$ 219,469	\$ 255,025	\$ 260,178
Stock-based compensation	48,260	38,707	48,388
Restructuring and other charges.....	1,194	555	—
Amortization of purchased intangibles, technology license arrangements and incomplete technology	82,996	46,570	41,071
Non-GAAP operating income	<u>\$ 351,919</u>	<u>\$ 340,857</u>	<u>\$ 349,637</u>
Net income:			
GAAP net income.....	\$ 191,608	\$ 205,243	\$ 214,910
Stock-based compensation, net of tax.....	36,339	28,680	34,998
Restructuring and other charges, net of tax.....	899	411	—
Amortization of purchased intangibles, technology license arrangements and incomplete technology, net of tax...	61,829	34,521	29,705
Resolution of an income tax audit.....	(20,712)	—	—
Investment (gain) loss, net of tax	(913)	514	(6,875)
Non-GAAP net income.....	<u>\$ 269,050</u>	<u>\$ 269,369</u>	<u>\$ 272,738</u>
Diluted net income per share:			
GAAP net income.....	\$ 0.35	\$ 0.34	\$ 0.40
Stock-based compensation, net of tax.....	0.08	0.05	0.07
Restructuring and other charges, net of tax	—	—	—
Amortization of purchased intangibles, technology license arrangements and incomplete technology, net of tax...	0.11	0.06	0.05
Resolution of an income tax audit.....	(0.04)	—	—
Investment gain, net of tax.....	—	—	(0.02)
Non-GAAP net income.....	<u>\$ 0.50</u>	<u>\$ 0.45</u>	<u>\$ 0.50</u>
Shares used computing diluted net income per share.....	<u>541,311</u>	<u>597,334</u>	<u>542,376</u>

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	<u>Three Months</u>	
	<u>August 29, 2008</u>	<u>May 30, 2008</u>
Operating expenses:		
GAAP operating expenses	\$ 556,937	\$ 543,842
Stock-based compensation	(46,841)	(47,200)
Restructuring and other charges	(1,194)	—
Amortization of purchased intangibles, technology license arrangements and incomplete technology	(33,802)	(17,099)
Non-GAAP operating expenses	<u>\$ 475,100</u>	<u>\$ 479,543</u>

	<u>Three Months</u>		
	<u>August 29, 2008</u>	<u>August 31, 2007</u>	<u>May 30, 2008</u>
Operating margin:			
GAAP operating margin	24.7%	29.9%	29.3%
Stock-based compensation	5.4	4.6	5.5
Restructuring and other charges	0.1	0.1	—
Amortization of purchased intangibles, technology license arrangements and incomplete technology	9.5	5.4	4.6
Non-GAAP operating margin	<u>39.7%</u>	<u>40.0%</u>	<u>39.4%</u>

	<u>Three Months</u>
	<u>August 29, 2008</u>
Effective income tax rate:	
GAAP effective income tax rate.....	16.2%
Stock-based compensation.....	0.1
Amortization of purchased intangibles, technology license arrangements and incomplete technology.....	0.1
Resolution of an income tax audit	8.6
Non-GAAP effective income tax rate.....	<u>25.0%</u>

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Fourth Quarter Fiscal Year 2008 Non-GAAP Financial Targets

(In millions, except per share data)

The following tables show the Company's fourth quarter fiscal year 2008 non-GAAP financial targets reconciled to GAAP financial targets included in this release.

	<u>Fourth Quarter Fiscal 2008</u>
Operating margin:	
GAAP operating margin	30.5%
Stock-based compensation	4.7
Amortization of purchased intangibles and incomplete technology	4.3
Non-GAAP operating margin	<u>39.5%</u>

	<u>Fourth Quarter Fiscal 2008</u>	
	<u>Low</u>	<u>High</u>
Diluted net income per share:		
GAAP net income per share	\$ 0.39	\$ 0.41
Stock-based compensation, net of tax	0.07	0.07
Amortization of purchased intangibles and incomplete technology, net of tax	0.05	0.05
Non-GAAP net income per share	<u>\$ 0.51</u>	<u>\$ 0.53</u>
Shares used in computing diluted net income per share	<u>548.0</u>	<u>544.0</u>

Adobe continues to provide all information required in accordance with GAAP, but believes 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, as applicable, both GAAP information that includes the stock-based compensation impact of SFAS 123R, restructuring and other charges, amortization of purchased intangibles, technology license arrangements and incomplete technology, investment gains and losses and the related tax impact of these items, the resolution of an income tax audit, the income tax effect of the non-GAAP pre-tax adjustments from the provision for income taxes, 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.