

Adobe Systems Incorporated

January, 2007



Adobe Systems Incorporated

January, 2007

Adobe's Customers

Creatives	Knowledge Workers	Enterprises	Developers	Consumers
-----------	-------------------	-------------	------------	-----------

Go-to-Market Partners

Adobe Engagement Platform

2007 Adobe Systems Incorporated. All Rights Reserved. 4

Financial Disclaimer

Some of the information discussed in this presentation 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 the risks and uncertainties, you should review Adobe's SEC filings, including the annual report on Form 10-K for fiscal year 2006 and the quarterly reports on Form 10-Q filed by the company in 2006 and 2007.

In our presentation, we will discuss non-GAAP financial measures. The GAAP financial measures that correspond to such non-GAAP measures, as well as the reconciliation between the two, are available on our website at <http://www.adobe.com/ADBE>.

Adobe does not undertake an obligation to update forward-looking statements.

2007 Adobe Systems Incorporated. All Rights Reserved. Adobe

The Adobe Engagement Platform

Creative Tools	Universal Client	Servers	Creative Tools
Creative Suite	LiveCycle Flex ColdFusion Flash Media Server	Flex Builder	Developer Tools

Existing Infrastructure and Web Services

2007 Adobe Systems Incorporated. All Rights Reserved. Adobe

Creating Engaging Experiences

Adobe

2007 Adobe Systems Incorporated. All Rights Reserved. Adobe

Organized Around Business Opportunities


<p>Creative Solutions</p> <p>Deliver a complete professional line of integrated tools for a full range of creative and development tasks to an extended set of customers</p>	<p>Knowledge Worker Solutions</p> <p>Provide essential applications and services to help knowledge workers collaborate, focusing on targeted vertical/functional solutions</p>	<p>Enterprise and Developer Solutions</p> <p>Create a market-leading enterprise interaction solution to automate people-centric business processes and provide great user experiences</p>	<p>Mobile and Device Solutions</p> <p>Provide solutions to create compelling experiences through rich content and applications on mobile and non-PC devices</p>	<p>Print and Classic Publishing Solutions</p> <p>Increase contribution margin by delivering increased efficiency and maximizing mature products revenues</p>
-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------

Adobe Engagement Platform
Establish the Adobe Engagement Platform as the cross-media, cross-device standard for delivering engaging digital experiences


2007 Adobe Systems Incorporated. All Rights Reserved. Adobe

Creative Professional Customer Challenges


Deliver rich experiences across multiple media



Work more efficiently and productively



Coordinate distributed teams and job functions



2007 Adobe Systems Incorporated. All Rights Reserved. 7



Video and Motion Market

Market trends

- Worldwide broadband subscribers growing to 250 million by 2007
- Web-based video streams rose by 48% in 2005 to over 21 billion
- Worldwide HDTV households growing to 87 million by 2010

Opportunity

- Provide most tightly integrated, complete video authoring platform
- Fewer than 15% of Macromedia customers use Adobe video products

Sources: eMarketer, Accustream, IMS Research, Adobe Market Research As of January, 2006
2007 Adobe Systems Incorporated. All Rights Reserved. 10



Layout and Design Market

Market trends

- Publishers continue to launch new titles
- Advertising spending continues to grow
- Convergence of print and new media channels

Opportunity

- 1.6 million new full units of Creative Suite to date
- 40% of Studio users have Creative Suite
- Creative Suite penetration at 30% among Creative Professionals

Sources: Forrester, Accustream, iMedia Research, Forbes, Adobe Market Research As of January, 2006
2007 Adobe Systems Incorporated. All Rights Reserved. 8

Digital Imaging Markets

 <p>Layout and Design</p>	 <p>Web and Non-PC Devices</p>	 <p>Video and Motion</p>
 <p>Technical</p>	 <p>Pro Photographer</p>	 <p>Consumer</p>

2007 Adobe Systems Incorporated. All Rights Reserved. 11



Web and Non-PC Device Market

Market trends

- Rapid expansion in devices capable of engaging digital experiences
- 92% of all online users engage with some form of rich media each month
- Total WW Internet advertising spend forecasted to be \$19 billion in 2005

Opportunity

- 1.3 million new full units of Studio to date
- 43% of Creative Suite users own Studio

Sources: Forrester, Accustream, iMedia Research, Forbes, Adobe Market Research As of January, 2006
2007 Adobe Systems Incorporated. All Rights Reserved. 9

Digital Imaging Opportunities

- Maintain leadership position with Photoshop through innovation
- Deliver Photoshop Lightroom to provide integrated workflow solution for the pro photographer
- Target expanding imaging use in technical markets
 - Science
 - Medical research
 - Healthcare
 - Engineering
- Gain market share with Photoshop and Photoshop Elements



2007 Adobe Systems Incorporated. All Rights Reserved. 12

Creative Solutions: The Future

- Cross-sell Adobe and former Macromedia products
- Deliver mobile content authoring on the Flash platform
- Increase video usage on the Web
- Extend digital imaging leadership in emerging segments



2007 Adobe Systems Incorporated. All Rights Reserved. 13

Acrobat Strategy: Higher Value Uses in Vertical Markets

Financial Services	Telco	Media and Publishing	Government	Education	Manufacturing
Universal view and print	Create forms	Gather feedback and approvals	Secure and control	Combine and organize	

Adobe Acrobat

2007 Adobe Systems Incorporated. All Rights Reserved. 16

Knowledge Worker Customer Challenges

Consuming Information Collaborating with Colleagues Sharing Information

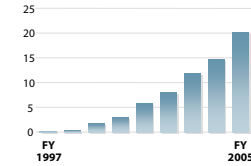


Communicating and Collaborating with Confidence

2007 Adobe Systems Incorporated. All Rights Reserved. 14

Acrobat Momentum and Opportunity

Cumulative New Units Licensed (millions)



Total potential seats: 84 million

New unit licenses: 20 million

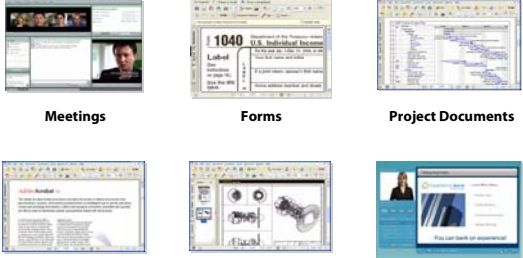
- Approximately 5 million new licenses between Oct 2004 and Jan 2006
- Higher-value use features increasing Acrobat's market opportunity

Source: Adobe Market Research
As of January, 2006

2007 Adobe Systems Incorporated. All Rights Reserved. 17

Knowledge Workers Engage with High-Value Information

Meetings	Forms	Project Documents
Collateral	Design Documents	Presentations



2007 Adobe Systems Incorporated. All Rights Reserved. 15

A New Member of the Family: Acrobat 3D


- Targets engineering design professionals who need to clearly communicate design intent
- Addresses customer challenges
 - Supply chain effectiveness
 - Security of intellectual property
 - Compliance
 - Customer service
- Improves collaborative process beyond core design teams



2007 Adobe Systems Incorporated. All Rights Reserved. 18

Announcing Adobe Acrobat 8

Communicate and Collaborate with Confidence





- Continued focus on higher-value uses beyond PDF creation
Create, Collect, Collaborate, Combine, Control
- Secure information sharing across operating systems, applications, and firewalls
- Accessible new user interface
- Intellectual property control with new security, packaging, and redaction features
- Easy creation and distribution of eForms
- Personal on-line meeting rooms for Web conferencing and collaboration with Acrobat Connect

2007 Adobe Systems Incorporated. All Rights Reserved. 19

Introducing Adobe Acrobat Connect

Formerly Macromedia Breeze

- Provides real-time Web-based collaboration, leveraging ubiquity of the Flash Player
- Now available for individuals
- Improves sales and marketing effectiveness
- Delivers rapid training solutions

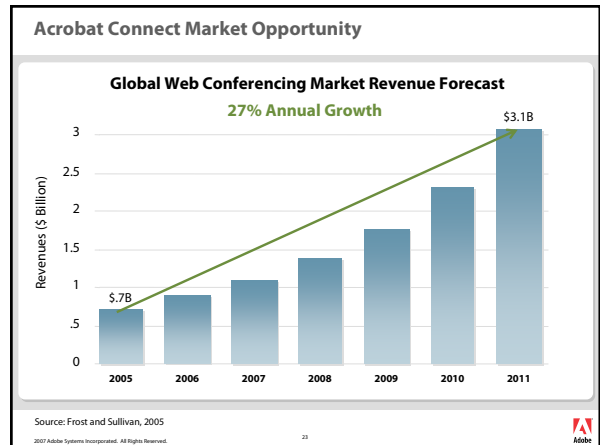
2007 Adobe Systems Incorporated. All Rights Reserved. 22

The Acrobat Product Family


Adobe Acrobat Elements	Adobe Acrobat Standard	Adobe Acrobat Professional	Adobe Acrobat 3D
\$99	\$299	\$449	\$995
			


Get Adobe Reader  **Adobe Reader**
View, print, and search Adobe PDF files, and interact with documents and forms

2007 Adobe Systems Incorporated. All Rights Reserved. 20




The Adobe Advantage for the Acrobat Business

Ubiquity of Adobe Reader 

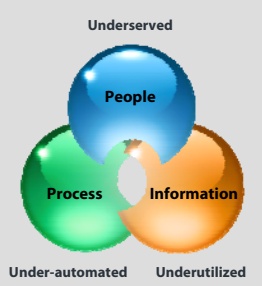
 **Dedication to cross-platform support**

Standards **PDF/A PDF/E PDF/X**

 **The trusted brand**

2007 Adobe Systems Incorporated. All Rights Reserved. 21

Enterprise Customer Challenges




- Drive customer acquisition
- Increase operational efficiencies
- Satisfy policy and compliance mandates
- Support security and privacy requirements

Companies meet these challenges with the combination of **people**, **process**, and **information**

2007 Adobe Systems Incorporated. All Rights Reserved. 24

Adobe Value Proposition



Streamline people-centric processes by

- Securely extending the reach of information and processes
- Automating processes
- Enabling engaging experiences
- Delivering world-class tools and servers

2007 Adobe Systems Incorporated. All Rights Reserved. 25


Success Story: HBOS Group UK

Solution

- RIA mortgage calculator
- Brand-specific skins
- Works online and offline

Benefits


- Immediate 15% increase in offset mortgage sales
- 8 week development cycle
- Rapid deployment to both web and mobile sales force



2007 Adobe Systems Incorporated. All Rights Reserved. 28


Enterprise Solutions

Intelligent Documents



- The familiarity and fidelity of paper
- The assurance to do business digitally
- Securely extending the reach of business processes and information

Rich Internet Applications



- The richness of the desktop
- The reach of the web
- Making complex online processes and information more engaging

2007 Adobe Systems Incorporated. All Rights Reserved. 26

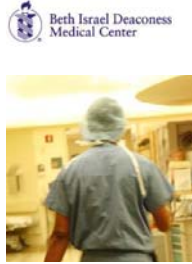
Success Story: Beth Israel

Solution

- Centralized the management and processing of forms via a physician portal

Benefits

- Improved critical care to cancer patients, which is saving lives
- Smart consent forms will save approximately \$4.5 million annually
- Improvements in patient registration will result in \$26M in labor savings



2007 Adobe Systems Incorporated. All Rights Reserved. 29

Enterprise Vertical Solutions

Financial Services	Telco	Government	Manufacturing	Life Sciences
<ul style="list-style-type: none"> Customer portals Advisor and broker portals Account opening Branch output eStatements eMortgage enablement Loan origination 	<ul style="list-style-type: none"> Enhanced self-service channels Dynamic document creation Workflow automation and efficiency 	<ul style="list-style-type: none"> Self-service eGovernment Trusted document sharing Electronic document archival 	<ul style="list-style-type: none"> Design collaboration PLM event management Document-based PLM compliance management 	<ul style="list-style-type: none"> Electronic submissions development and delivery Electronic forms for clinical development Secure information exchange and delivery Long term archiving and preservation

LiveCycle Flex ColdFusion Flash Media Server

2007 Adobe Systems Incorporated. All Rights Reserved. Adobe Confidential. 30

Partners Expand Market Reach




- Embedded in SAP NetWeaver platform
- Extends SAP customers' business processes



- Strategic alliance to jointly deliver collaborative solutions
- Broad co-selling and OEM relationship

2007 Adobe Systems Incorporated. All Rights Reserved. 30





Enterprise Market Opportunity



- Industry trends
 - Internet/broadband growth
 - Core business processes moving to the Web
 - Importance of customer experience
- Greater than \$1 billion market

Source: Adobe Market Research
2007 Adobe Systems Incorporated. All Rights Reserved.

Customers and Go-to-Market Partners

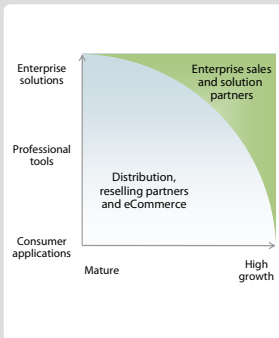
Operators	Handset OEMs	Consumer Electronics OEMs	Developers
			

2007 Adobe Systems Incorporated. All Rights Reserved.

Adobe Go-To-Market Strategy

Tools, applications	Enterprise products
Features	Solutions
Transactional engagement	Strategic engagement
Marketing	Selling
Creatives, hobbyists	CxOs
Horizontals	Verticals

Diverse Products and Target Customers




Enterprise solutions
Professional tools
Consumer applications

Enterprise sales and solution partners
Distribution, reselling partners and eCommerce

Mature High growth

2007 Adobe Systems Incorporated. All Rights Reserved.

Operators

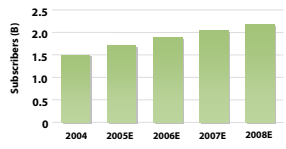
Operators	Handset OEMs	Consumer Electronics OEMs	Developers
Market trends <ul style="list-style-type: none"> Small number of operators have the majority of subscribers Operators increasingly influence handset specifications Operators are becoming service providers rather than bandwidth providers Challenges <ul style="list-style-type: none"> Voice revenue (ARPU) is declining Subscribers have more services choices 		Adobe solutions <ul style="list-style-type: none"> Enhanced content and browsing: Flash Lite, Flash Player SDK, Reader LE Customized UI: Flash Lite Converged data experiences: FlashCast More than 1 million developers 	

2007 Adobe Systems Incorporated. All Rights Reserved.

Mobile Market

WW Subscribers


EMEA	APAC	Americas
565 million	558 million	366 million



Steady 10% year/year subscriber growth worldwide

Source: Strategy Analytics
2007 Adobe Systems Incorporated. All Rights Reserved.

Handset Manufacturers

Operators	Handset OEMs	Consumer Electronics OEMs	Developers
Market trends <ul style="list-style-type: none"> 6 manufacturers account for >80% of the market share Numerous regional manufacturers and design suppliers Challenges <ul style="list-style-type: none"> Market demanding more sophisticated devices Must accommodate varying operator requirements Struggling with shorter design cycles Constant pressure on overall cost 		Adobe solutions <ul style="list-style-type: none"> Enhanced content and browsing: Flash Lite, Reader LE Customized user interfaces: Flash Lite More than 1 million developers 	

Source: Strategy Analytics
2007 Adobe Systems Incorporated. All Rights Reserved.

Consumer Electronics Manufacturers


Operators	Handset OEMs	Consumer Electronics OEMs	Developers
-----------	--------------	---------------------------	------------

Market trends

- New generation of digital devices beyond phones
- Usage of devices extends from toys and games to vertical markets such as automotive, industrial, and medical

Challenges

- Market demanding more sophisticated, feature-rich devices
- Internet connectivity increasing and driving new content
- Struggling with shorter design cycles
- Constant pressure on overall cost



Adobe solutions

- Enhanced content and browsing: Flash Lite, Flash Player SDK, Reader LE
- Customized user interfaces: Flash Lite
- More than 1 million developers

2007 Adobe Systems Incorporated. All Rights Reserved. 37

Mobile and Device Revenue Model

Client	Server	Tools
--------	--------	-------

Client
Flash Lite, MMI and Reader LE licensing
Per device royalty

Server
FlashCast
Per subscriber / revenue share

Tools
Creative Suite, Studio and Flex Builder
Per seat

2007 Adobe Systems Incorporated. All Rights Reserved. 40

Developers


Operators	Handset OEMs	Consumer Electronics OEMs	Developers
-----------	--------------	---------------------------	------------

Market trends

- Media companies extending their brands to mobile
- Desire to leverage existing assets and skills
- Enterprise mobility emerging as a market segment

Adobe solutions

- Content creation tools
 - Mobile authoring features
 - Integrated workflows
- Enterprise mobility development
- Mobile Developer Program



2007 Adobe Systems Incorporated. All Rights Reserved. 38


Adobe Summary



- Strong business momentum**
 - Creative Suite becoming a standard
 - Digital imaging leadership drives new market opportunities
 - Broadband and digital video use on the Web expand creative opportunities
 - Higher-value vertical market features fueling Acrobat momentum
 - Innovative enterprise solutions automating business processes and creating engaging on-line experiences
 - High-growth mobile and non-PC device opportunities
- Adobe Engagement Platform will revolutionize how people and businesses create, manage, deliver and engage with information

2007 Adobe Systems Incorporated. All Rights Reserved. 41

Mobile and Device Momentum




Strong momentum continues

- iRiver ships first Flash-enabled PMP
- LG Electronic and BenQ Mobile licensing agreements announced
- NTT DoCoMo's FlashCast-based i-channel service passes two million subscriber mark
- Verizon relationship announced
- Viacom strategic alliance announced

Worldwide device shipments are growing*

- More than 150 handset models
- More than 250 device models
- Over 150 million devices shipped

* As of December, 2006. 2007 Adobe Systems Incorporated. All Rights Reserved. 39



Revolutionizing
how the world engages
with ideas and information

2007 Adobe Systems Incorporated. All Rights Reserved.



Investor Relations Data Sheet

Last Updated: December 14, 2006

Select "Attachments" Tab to Open Excel Version of Data Sheet

	Description	Q1'06	Q2'06	Q3'06	Q4'06	FY2006
Revenue (\$Millions)	Total Revenue	655.5	635.5	602.2	682.2	2,575.3
Revenue by Segment (\$Millions)	Creative Solutions	379.6	357.3	328.1	359.9	1,424.9
	Knowledge Worker Solutions	168.8	163.0	154.1	185.1	671.0
	Enterprise and Developer Solutions	45.0	42.8	49.4	52.0	189.2
	Mobile and Device Solutions	8.6	7.9	9.1	12.1	37.7
	Other	53.5	64.5	61.5	73.1	252.5
Revenue by Segment (as % of total revenue)	Creative Solutions	58%	56%	54%	53%	55%
	Knowledge Worker Solutions	26%	26%	26%	27%	26%
	Enterprise and Developer Solutions	7%	7%	8%	7%	7%
	Mobile and Device Solutions	1%	1%	2%	2%	2%
	Other	8%	10%	10%	11%	10%
Revenue by Geography (\$Millions)	Americas	313.7	305.9	310.3	336.9	1,266.7
	EMEA	207.0	181.3	165.4	216.4	770.1
	Asia	134.8	148.3	126.5	128.9	538.5
Revenue by Geography (as % of total revenue)	Americas	48%	48%	52%	49%	49%
	EMEA	32%	29%	27%	32%	30%
	Asia	20%	23%	21%	19%	21%
Enterprise KPI	Number of Server Transactions > \$50,000 *	113	97	82	104	396
<small>* Based on LiveCycle, Flex, ColdFusion, Acrobat Connect and Flash Media Server transactions greater than \$50,000 (excludes maintenance, support, and professional services)</small>						
Acquisition Related Expenses (\$Millions)	Direct Costs	36.6	36.0	34.8	35.9	143.3
	Research & Development	14.0	6.1	3.1	4.7	27.9
	Sales & Marketing	9.5	5.7	14.1	3.3	32.6
	General & Administrative	3.2	2.2	0.3	1.4	7.1
	Amortization of Purchased Intangibles	17.1	17.3	17.7	17.7	69.8
	Restructuring	19.0	1.2	0.0	(0.5)	19.7
SFAS 123R Stock Compensation Expenses (\$Millions)	Direct Costs	0.5	0.7	0.6	0.7	2.5
	Research & Development	9.7	12.1	12.0	13.5	47.3
	Sales & Marketing	8.1	8.8	9.0	9.9	35.8
	General & Administrative	4.7	5.0	5.6	5.9	21.2
	TOTAL	23.0	26.6	27.2	30.0	106.8
Shares (Millions)	Diluted Shares Outstanding	621.8	613.8	600.9	602	612.2
Headcount	Worldwide Employees	5,480	5,678	5,879	6,068	6,068
DSO Ratio	Days Sales Outstanding - Trade Receivables	39	40	43	48	48

Adobe provides this information as of the modification date above and makes no commitment to update the information subsequently. For a full explanation of this data, you are encouraged to review Adobe's Form 10-K and 10-Q SEC filings.



Historical Investor Relations Data Sheet (Pre-Adobe/Macromedia integration)

Last Updated: December 15, 2005

	Description	FY2000	Q1'01	Q2'01	Q3'01	Q4'01	FY2001	Q1'02	Q2'02	Q3'02	Q4'02	FY2002	Q1'03	Q2'03	Q3'03	Q4'03	FY2003	Q1'04	Q2'04	Q3'04	Q4'04	FY2004	Q1'05	Q2'05	Q3'05	Q4'05	FY2005
Total (\$Millions)	Revenue	1,266.4	329.0	344.1	292.1	264.5	1,229.7	267.9	317.4	284.9	294.7	1,164.8	296.9	320.1	319.1	358.6	1,294.7	423.3	410.1	403.7	429.5	1,666.6	472.9	496.0	487.0	510.4	1,966.3
Revenue By Segment (\$Millions)	Digital Imaging & Video	476.7	128.6	122.6	104.2	84.3	439.7	83.8	130.6	96.0	101.6	411.9	96.2	95.3	88.3	112.6	392.4	113.5	100.3	98.4	118.0	430.2	106.6	115.9	95.6	114.7	432.8
	Creative Professional	450.6	111.6	102.8	87.7	91.1	393.3	87.6	90.1	86.6	86.9	351.3	85.8	93.7	82.0	107.0	368.5	158.1	153.4	150.4	151.2	613.1	160.7	184.4	206.3	192.4	743.8
	Intelligent Documents	207.6	61.7	90.0	74.3	65.9	291.9	74.0	75.6	78.6	84.4	312.5	90.9	108.1	127.0	118.1	444.1	130.3	136.1	135.5	139.9	541.8	184.9	176.2	165.8	181.1	708.0
	OEM PostScript & Other	131.5	27.0	28.7	25.9	23.2	104.8	22.5	21.1	23.7	21.8	89.0	24.0	23.0	21.8	20.9	89.7	21.4	20.3	19.4	20.4	81.5	20.7	19.5	19.3	22.2	81.7
Revenue By Segment (as % of total revenue)	Digital Imaging & Video	38%	39%	36%	36%	32%	36%	31%	41%	34%	34%	35%	32%	30%	27%	31%	30%	27%	25%	24%	27%	26%	23%	23%	20%	22%	22%
	Creative Professional	36%	34%	30%	30%	34%	32%	33%	28%	30%	30%	30%	29%	29%	26%	30%	29%	37%	37%	37%	35%	37%	34%	37%	42%	38%	38%
	Intelligent Documents	16%	19%	26%	25%	25%	24%	28%	24%	28%	29%	27%	31%	34%	40%	33%	34%	31%	33%	34%	33%	32%	39%	36%	34%	36%	36%
	OEM PostScript & Other	10%	8%	8%	9%	9%	8%	8%	7%	8%	7%	8%	8%	7%	7%	6%	7%	5%	5%	5%	5%	5%	4%	4%	4%	4%	4%
Revenue By Geography (\$Millions)	Americas	659.1	151.1	158.9	154.8	126.8	591.5	124.1	158.0	156.2	145.5	583.8	146.5	157.4	156.8	179.5	640.2	183.5	182.5	195.9	208.7	770.6	218.0	242.4	228.3	251.0	939.7
	EMEA	323.0	98.1	78.5	71.6	78.3	326.5	74.9	82.2	68.4	92.1	317.6	89.3	86.6	84.3	110.0	370.2	144.1	134.3	123.5	139.6	541.5	150.5	145.1	153.0	164.1	612.7
	Asia	284.3	79.8	106.7	65.7	59.5	311.7	68.8	77.1	60.3	57.1	263.4	61.1	76.1	78.0	69.1	284.3	95.7	93.3	84.3	81.2	354.5	104.4	108.5	105.7	95.3	413.9
Revenue By Geography (as % of total revenue)	Americas	52%	46%	46%	53%	48%	48%	46%	50%	55%	49%	50%	49%	49%	49%	50%	49%	43%	44%	48%	49%	46%	46%	49%	47%	49%	48%
	EMEA	26%	30%	23%	25%	30%	27%	28%	26%	24%	31%	27%	30%	27%	26%	31%	29%	34%	33%	31%	32%	33%	32%	29%	31%	32%	31%
	Asia	22%	24%	31%	22%	22%	25%	26%	24%	21%	20%	23%	21%	24%	25%	19%	22%	23%	23%	21%	19%	21%	22%	22%	22%	19%	21%
Intelligent Documents Data	Desktop Revenue (\$Millions)	-	-	-	-	-	-	-	-	-	-	-	75.5	91.6	109.5	98.6	375.2	109.0	112.8	105.8	110.6	438.2	160.7	149.8	135.5	147.8	593.8
	Server Revenue (\$Millions)	-	-	-	-	-	-	-	-	-	-	-	15.4	16.5	17.5	19.5	68.9	21.3	23.3	29.7	29.3	103.6	24.2	26.4	30.3	33.3	114.2
	Licensing as a % of Desktop Revenue	-	-	-	-	-	-	-	-	27.6%	30.6%	-	36.7%	31.8%	38.7%	40.4%	-	45.2%	43.1%	45.9%	47.2%	-	41.1%	47.2%	52.0%	57.2%	-
	Number of Server Transactions > \$50,000 *	-	-	-	-	-	-	-	-	-	17	-	21	32	29	35	-	29	34	39	44	-	39	60	56	63	-
	Average Server Transaction Size *	-	-	-	-	-	-	-	-	-	145	-	100	113	120	114	-	205	236	184	219	-	150	119	191	162	-

* Based on server transactions greater than \$50,000 (excludes maintenance, support, and professional services); Average rounded to \$Thousands

Margin (as a % of total revenue)	Gross Profit Margin	93.1%	93.9%	93.5%	93.1%	92.8%	93.4%	92.2%	92.1%	88.9%	91.0%	91.0%	92.5%	92.7%	93.1%	93.0%	92.8%	94.3%	93.4%	94.2%	93.2%	93.7%	94.3%	94.5%	94.4%	94.0%	94.3%
	Operating Expenses (as % of total revenue)	Research & Development	19.0%	16.9%	17.3%	18.6%	20.7%	18.2%	22.1%	19.8%	21.0%	21.8%	21.1%	22.2%	21.6%	21.6%	20.4%	21.4%	17.7%	18.5%	19.8%	18.6%	18.7%	18.3%	18.0%	19.4%	18.5%
	Sales & Marketing	31.7%	31.6%	31.8%	32.7%	35.8%	32.8%	33.3%	32.7%	32.9%	31.7%	32.7%	33.0%	33.0%	33.3%	31.7%	32.7%	30.1%	31.8%	30.5%	32.7%	31.3%	31.2%	31.2%	29.5%	28.8%	30.2%
	General & Administrative	9.2%	9.2%	9.0%	8.9%	10.6%	9.4%	9.6%	9.2%	9.4%	9.1%	9.3%	10.1%	9.5%	9.5%	8.8%	9.5%	7.9%	8.4%	9.1%	7.8%	8.3%	8.7%	8.5%	7.7%	9.0%	8.5%
Headcount	Worldwide Employees	2,947	3,066	3,161	3,233	3,043	3,043	3,054	3,510	3,557	3,319	3,319	3,377	3,440	3,486	3,515	3,515	3,518	3,646	3,749	3,848	3,848	4,016	4,207	4,286	4,285	4,285
Platform Mix (as % of total revenue)	Windows	63%	66%	71%	71%	73%	70%	73%	69%	72%	73%	71%	74%	73%	77%	73%	74%	71%	72%	73%	75%	73%	76%	74%	73%	76%	75%
	Macintosh	37%	34%	29%	29%	27%	30%	27%	31%	28%	27%	29%	26%	27%	23%	27%	26%	29%	28%	27%	25%	27%	24%	26%	27%	24%	25%
Total (Millions)	Diluted Shares Outstanding*	511.5	507.2	500.2	497.2	486.8	498.3	490.5	495.4	486.8	476.8	486.2	470.6	478.5	481.0	491.0	482.9	492.2	493.9	494.2	500.6	495.6	506.2	508.2	507.8	508.6	508.1
DSO Ratio	Days Sales Outstanding (Trade Receivables)	36	41	39	46	42	42	48	38	46	36	36	41	36	31	37	37	28	23	25	30	30	27	32	29	31	31

Adobe provides this information as of the modification date above and makes no commitment to update the information subsequently. For a full explanation of this data, you are encouraged to review Adobe's Form 10-K and 10-Q SEC filings.



Adobe Systems Incorporated

Historical Desktop Product Release Roadmap
Last Updated: December 14, 2006

Product	Q1`06	Q2`06	Q3`06	Q4`06
Acrobat				8.0
Acrobat 3D	7.0			
After Effects	7.0			
Audition	2.0			
Authorware				
Captivate				2.0
Connect (formerly Breeze)				6.0
Contribute				4.0
Creative Suite				2.3
Director				
Dreamweaver				
Encore	2.0			
Fireworks				
Flash				
FrameMaker				
FreeHand				
GoLive				
Illustrator				
InDesign				
Lightroom				
PageMaker				
Photoshop				
Photoshop Elements				5.0
Premiere Elements				3.0
Premiere Pro	2.0			
Production Studio	1.0			
Soundbooth				
Studio				

Adobe provides this information as of the modification date above and makes no commitment to update the information subsequently. For a full explanation of this data, you are encouraged to review Adobe's Form 10-K and 10-Q SEC filings. All of the above products were launched in the United States.



Adobe Systems Incorporated

Historical Desktop Product Release Roadmap (Pre Adobe/Macromedia integration)

Last Updated: December 15, 2005

Product	Q1'00	Q2'00	Q3'00	Q4'00	Q1'01	Q2'01	Q3'01	Q4'01	Q1'02	Q2'02	Q3'02	Q4'02	Q1'03	Q2'03	Q3'03	Q4'03	Q1'04	Q2'04	Q3'04	Q4'04	Q1'05	Q2'05	Q3'05	Q4'05	
Acrobat						5.0								6.0								7.0			
After Effects						5.0			5.5						6.0			6.5							
Audition															1.0			1.5							
Creative Suite																1.0							2.0		
Encore DVD															1.0			1.5							
FrameMaker		6.0								7.0															
GoLive			5.0						6.0															CS2	
Illustrator			9.0					10.0																	CS2
InDesign		1.5							2.0																CS2
PageMaker							7.0																		
Photoshop				6.0						7.0															CS2
Photoshop Album													1.0				2.0								
Photoshop Elements						1.0					2.0										3.0				4.0
Premiere					6.0						6.5														
Premiere Elements																						1.0			2.0
Premiere Pro															1.0			1.5							

Adobe provides this information as of the modification date above and makes no commitment to update the information subsequently. For a full explanation of this data, you are encouraged to review Adobe's Form 10-K and 10-Q SEC filings. All of the above products were launched in the United States.




FY2007 Business Segment Classifications

Last Updated: December 14, 2006

Additions/Changes in **Bold**

Products		
Creative Solutions	After Effects	Photoshop
	Audition	Photoshop Album
	Creative Suite	Photoshop Elements
	Design Bundle	Photoshop Lightroom
	Dreamweaver	Premiere Elements
	Encore DVD	Premiere Pro
	Fireworks	Production Studio
	Flash	Soundbooth
	Flash Media Server	Studio
	Flash Video Streaming Service	Video Bundle
	GoLive	Video Collection
	Illustrator	Web Bundle
	InDesign	
Knowledge Worker Solutions	Acrobat	Create PDF Online
	Acrobat Connect (formerly Breeze)	
Enterprise and Developer Solutions	Acrobat Capture	Flex
	Acrobat Distiller Server	Flex Builder
	Acrobat Elements Server	Form Server
	Adobe Reader Extensions Server	Output Server
	Barcoded Forms	PDF Library
	ColdFusion	Policy Server
	Document Security Server	Workflow Server
	Document Server	
Mobile and Device Solutions	FlashCast	Flash Player SDK
	Flash Lite	
Other	Authorware	Jrun
	Captivate	PageMaker
	Contribute	PDF Print Engine
	Director	PostScript
	FrameMaker	Reader, Flash Player & Shockwave Player
	Freehand	Type

Adobe provides this information as of the modification date above and makes no commitment to update the information subsequently. For a full explanation of this data, you are encouraged to review Adobe's Form 10-K and 10-Q SEC filings.


Adobe Adobe Systems Incorporated

Income Statement
 Reconciliation of Non-GAAP to GAAP
 \$Millions Except EPS
 Reflects May 2005 2:1 Stock Split
 December 14, 2006

	Q1 FY04	Q2 FY04	Q3 FY04	Q4 FY04	Q1 FY05	Q2 FY05	Q3 FY05	Q4 FY05	Q1 FY06	Q2 FY06	Q3 FY06	Q4 FY06
Non-GAAP												
Revenue	423.3	410.1	403.7	429.5	472.9	496.0	487.0	510.4	655.5	635.4	602.2	682.2
GM - % of Revenue	94.3%	93.4%	94.2%	93.2%	94.3%	94.5%	94.4%	94.0%	93.8%	95.4%	94.3%	93.7%
Operating Expenses	235.8	241.0	239.8	253.8	275.2	286.4	276.0	287.8	362.4	363.4	360.8	385.2
Operating Profit	163.3	141.8	140.3	146.4	170.7	182.2	183.6	191.9	252.4	243.1	207.2	254.0
% of Revenue	38.6%	34.6%	34.8%	34.1%	36.1%	36.7%	37.7%	37.6%	38.5%	38.3%	34.4%	37.2%
Interest & Other Income	4.0	5.1	2.3	2.8	7.6	8.3	12.4	10.3	15.5	13.9	18.1	19.6
Income Before Taxes	167.3	147.0	142.7	149.2	178.3	190.5	196.0	202.2	267.9	257.0	225.3	273.6
Taxes	43.5	38.2	37.1	38.8	44.5	47.6	49.6	50.7	70.5	67.6	53.8	76.6
Net Income	123.8	108.8	105.6	110.4	133.8	142.9	146.4	151.5	197.5	189.4	171.5	197.0
Adjusted Diluted Shares (Millions)	492.2	496.9	494.2	500.6	506.2	508.2	507.8	508.6	621.8	613.8	600.9	602.2
Adjusted EPS	0.25	0.22	0.21	0.22	0.26	0.28	0.29	0.30	0.32	0.31	0.29	0.33
Reconciliation to GAAP												
Non-GAAP Income Before Taxes	167.3	147.0	142.7	149.2	178.3	190.5	196.0	202.2	267.9	256.9	225.3	273.6
SFAS 123R Stock-based Compensation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	23.0	26.6	27.2	30.0
Restructuring and Other Charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	19.0	1.2	0.0	(0.5)
Acquisition and technology-related Costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	56.9	52.0	54.5	53.5
Amortization of Macromedia Deferred Compensation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	23.4	15.3	15.5	9.5
Investment (Gain) Loss	1.0	(0.8)	1.5	4.2	1.5	2.7	2.0	(5.0)	1.3	(2.7)	5.1	(65.0)
GAAP Income Before Taxes	166.3	147.8	141.2	153.4	176.8	187.8	194.0	207.2	144.3	164.5	123.0	246.1
Taxes	43.3	38.4	36.7	39.9	24.9	38.0	49.0	51.0	39.2	41.4	28.6	64.2
GAAP Net Income	123.0	109.4	104.5	113.5	151.9	149.8	145.0	156.2	105.1	123.1	94.4	181.9
Adjusted Diluted Shares (Millions)	492.2	496.9	494.2	500.6	506.2	508.2	507.8	508.6	621.8	613.8	600.9	602.2
Adjusted EPS	0.25	0.22	0.21	0.23	0.30	0.29	0.29	0.31	0.17	0.20	0.16	0.30
GAAP												
Revenue	423.3	410.1	403.7	429.5	472.9	496.0	487.0	510.4	655.5	635.4	602.2	682.2
GM - % of Revenue	94.3%	93.4%	94.2%	93.2%	94.3%	94.5%	94.4%	94.0%	88.1%	89.7%	88.5%	88.3%
Operating Expenses	235.8	241.0	239.8	253.8	275.2	286.4	276.0	287.8	447.8	421.9	422.7	441.1
Operating Profit	163.3	141.8	140.3	146.4	170.7	182.2	183.6	191.9	130.0	147.9	110.0	161.5
% of Revenue	38.6%	34.6%	34.8%	34.1%	36.1%	36.7%	37.7%	37.6%	19.8%	23.3%	18.3%	23.7%
Investment Gains (Loss)	(1.0)	0.8	(1.5)	(4.2)	(1.5)	(2.7)	(2.0)	5.0	(1.3)	2.7	(5.1)	65.0
Interest & Other Income	4.0	5.1	2.3	2.8	7.6	8.3	12.4	10.3	15.5	13.9	18.1	19.6
Income Before Taxes	166.3	147.8	141.2	153.4	176.8	187.8	194.0	207.2	144.3	164.5	123.0	246.1
Taxes	43.3	38.4	36.7	39.9	24.9	38.0	49.0	51.0	39.2	41.4	28.6	64.2
Net Income	123.0	109.4	104.5	113.5	151.9	149.8	145.0	156.2	105.1	123.1	94.4	181.9
Adjusted Diluted Shares (Millions)	492.2	496.9	494.2	500.6	506.2	508.2	507.8	508.6	621.8	613.8	600.9	602.2
Adjusted EPS	0.25	0.22	0.21	0.23	0.30	0.29	0.29	0.31	0.17	0.20	0.16	0.30

The above results are supplied to provide meaningful supplemental information regarding Adobe's core operating results because such information excludes amounts that are not necessarily related to its core operating results. Adobe uses this non-GAAP financial information in assessing the performance of the Company's ongoing operations, and for planning and forecasting in future periods. This non-GAAP information should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP.



Press/Analyst Contacts

Investor Relations Contact:
Mike Saviage
Adobe Systems Incorporated
408-536-4416
ir@adobe.com

Public Relations Contact:
Holly Campbell
Adobe Systems Incorporated
408-536-6401
campbell@adobe.com

FOR IMMEDIATE RELEASE

Adobe Reports Record Fourth Quarter and Fiscal Year 2006 Revenue

Company Achieves 31 Percent Annual Revenue Growth

SAN JOSE, Calif. — December 14, 2006 — Adobe Systems Incorporated (Nasdaq:ADBE) today reported financial results for its fourth quarter and fiscal year ended December 1, 2006. The Company's results reflect the acquisition of Macromedia in December 2005, and are compared to pre-acquisition results of prior fiscal periods as applicable.

In the fourth quarter of fiscal 2006, Adobe achieved record revenue of \$682.2 million, compared to \$510.4 million reported for the fourth quarter of fiscal 2005 and \$602.2 million reported in the third quarter of fiscal 2006. On a year-over-year basis, this represents 34 percent revenue growth. Adobe's fourth quarter revenue target range was \$655 to \$685 million.

"Fiscal 2006 was another year of solid financial performance for Adobe," said Bruce R. Chizen, Adobe chief executive officer. "We generated record revenue, and for the fourth consecutive year, achieved double digit revenue growth. At the same time, we successfully integrated Macromedia, leveraging our combined assets to provide platform-level solutions that redefine the way people engage with ideas and information."

GAAP diluted earnings per share for the fourth quarter of fiscal 2006 were \$0.30. Adobe's fourth quarter GAAP EPS target range was \$0.29 to \$0.32.

Non-GAAP diluted earnings per share were \$0.33. Non-GAAP diluted earnings per share exclude amortization of purchased intangibles, amortization of Macromedia deferred compensation, restructuring charges related to the Macromedia acquisition, a charge for incomplete technology related to a small acquisition, SFAS 123R stock-based compensation, investment gains, and tax differences due to the timing and deductibility of certain adjustments. Adobe's fourth quarter non-GAAP EPS target range was \$0.32 to \$0.34.

GAAP net income was \$181.9 million for the fourth quarter of fiscal 2006, compared to \$156.3 million reported in the fourth quarter of fiscal 2005, and \$94.4 million in the third quarter of fiscal 2006.

Adobe Reports Record Fourth Quarter and Fiscal Year 2006 Revenue

Non-GAAP net income was \$197.0 million for the fourth quarter of fiscal 2006, compared to \$151.5 million in the fourth quarter of fiscal 2005, and \$171.5 million in the third quarter of fiscal 2006. Non-GAAP net income excludes, as applicable, amortization of purchased intangibles, amortization of Macromedia deferred compensation, restructuring charges related to the Macromedia acquisition, a charge for incomplete technology related to a small acquisition, SFAS 123R stock-based compensation, investment gains and losses, and tax differences due to the timing and deductibility of certain adjustments as well as the net tax impact of the repatriation of certain foreign earnings.

GAAP diluted earnings per share for the fourth quarter of fiscal 2006 were \$0.30 based on 602.2 million weighted average shares. This compares with GAAP diluted earnings per share of \$0.31 reported in the fourth quarter of fiscal 2005, based on 508.6 million weighted average shares, and GAAP diluted earnings per share of \$0.16 reported in the third quarter of fiscal 2006, based on 600.9 million weighted average shares.

Adobe's GAAP operating income was \$161.5 million in the fourth quarter of fiscal 2006, compared to \$191.9 million in the fourth quarter of fiscal 2005 and \$110.0 million in the third quarter of fiscal 2006. As a percent of revenue, GAAP operating income in the fourth quarter of fiscal 2006 was 23.7 percent, compared to 37.6 percent in the fourth quarter of fiscal 2005 and 18.3 percent in the third quarter of fiscal 2006.

Adobe's non-GAAP operating income was \$254.0 million in the fourth quarter of fiscal 2006, compared to \$191.9 million in the fourth quarter of fiscal 2005 and \$207.2 million in the third quarter of fiscal 2006. Non-GAAP operating income excludes, as applicable, amortization of purchased intangibles, amortization of Macromedia deferred compensation, restructuring charges related to the Macromedia acquisition, a charge for incomplete technology related to a small acquisition, and SFAS 123R stock-based compensation. As a percent of revenue, non-GAAP operating income in the fourth quarter of fiscal 2006 was 37.2 percent, compared to 37.6 percent in the fourth quarter of fiscal 2005 and 34.4 percent in the third quarter of fiscal 2006.

Adobe Reports Record Annual Revenue in Fiscal Year 2006

In fiscal year 2006, Adobe achieved record revenue of \$2.575 billion, compared to \$1.966 billion in fiscal 2005. On a year-over-year basis, annual revenue grew 31 percent.

Adobe's annual GAAP net income was \$504.4 million in fiscal 2006, compared to \$602.8 million in fiscal 2005. Adobe's annual non-GAAP net income was \$752.5 million in fiscal 2006, compared to \$575.1 million in fiscal 2005. Non-GAAP net income excludes, as applicable, amortization of purchased intangibles, amortization of Macromedia deferred compensation, restructuring charges related to the Macromedia acquisition, a charge for incomplete technology related to a small acquisition, SFAS 123R stock-based compensation, investment gains and losses, and tax differences due to the timing and deductibility of certain adjustments as well as the net tax impact of the repatriation of certain foreign earnings.

GAAP diluted earnings per share for fiscal 2006 were \$0.82. Non-GAAP diluted earnings per share for fiscal 2006 were \$1.23. Non-GAAP diluted earnings per share exclude, as applicable, amortization of purchased intangibles, amortization of Macromedia deferred compensation, restructuring charges related to the Macromedia acquisition, a charge for incomplete technology related to a small acquisition, SFAS 123R stock-based compensation, investment gains and losses, and tax differences due to the timing and deductibility of certain adjustments.

Adobe Reports Record Fourth Quarter and Fiscal Year 2006 Revenue

Adobe Provides First Quarter FY2007 and Fiscal Year 2007 Financial Targets

For the first quarter of fiscal 2007, Adobe announced it is targeting revenue of \$640 million to \$670 million. The Company also is targeting a GAAP operating margin of approximately 19 to 21 percent in the first quarter. On a non-GAAP basis, which excludes acquisition-related costs and SFAS 123R stock-based compensation, the Company is targeting a first quarter operating margin of approximately 33 to 34 percent.

In addition, Adobe is targeting its share count to be between 609 million and 611 million shares in the first quarter of fiscal 2007. The Company also is targeting other income in its first quarter to be approximately \$20 million to \$22 million, with a GAAP and non-GAAP tax rate of approximately 26 to 28 percent.

These targets lead to a first quarter GAAP earnings per share target range of approximately \$0.17 to \$0.20. On a non-GAAP basis, which excludes acquisition-related costs, SFAS 123R stock-based compensation, and tax differences due to the timing and deductibility of certain adjustments, the Company is targeting earnings per share of approximately \$0.28 to \$0.30.

For fiscal year 2007, Adobe announced it is targeting annual revenue growth of approximately 15 percent. The Company also is targeting a GAAP operating margin of approximately 25 to 27 percent, and a non-GAAP operating margin – which excludes acquisition-related costs and SFAS 123R stock-based compensation – of approximately 37 to 38 percent.

Forward Looking Statements Disclosure

This press release contains forward looking statements, including those related to revenue, operating margin, other income, tax rate, share count and earnings per share, which involve risks and uncertainties that could cause actual results to differ materially. Factors that might cause or contribute to such differences include, but are not limited to: adverse changes in general economic or political conditions in any of the major countries in which Adobe does business, delays in development or shipment of Adobe's new products or major new versions of existing products, introduction of new products by existing and new competitors, failure to successfully manage transitions to new business models and markets, difficulty in predicting revenue from new businesses, failure to anticipate and develop new products in response to changes in demand for application software, computers and printers, intellectual property disputes and litigation, inability to protect Adobe's intellectual property from unauthorized copying, use, disclosure or malicious attack, failure to realize the anticipated benefits of past or future acquisitions and difficulty in integrating such acquisitions, changes to Adobe's distribution channel, disruption of Adobe's business due to catastrophic events, interruptions or terminations in Adobe's relationships with turnkey assemblers, risks associated with international operations, fluctuations in foreign currency exchange rates, changes in, or interpretations of, accounting principles, impairment of Adobe's goodwill or intangible assets, unanticipated changes in tax rates, Adobe's inability to attract and retain key personnel, and market risks associated with Adobe's equity investments. For further discussion of these and other risks and uncertainties, individuals should refer to Adobe's SEC filings. Adobe does not undertake an obligation to update forward looking statements.

About Adobe Systems Incorporated

Adobe revolutionizes how the world engages with ideas and information – anytime, anywhere, and through any medium. For more information, visit www.adobe.com.

###

© 2006 Adobe Systems Incorporated. All rights reserved. Adobe, Macromedia, and the Adobe logo are either registered trademarks or trademarks of Adobe Systems Incorporated in the United States and/or other countries. All other trademarks are the property of their respective owners.

Adobe Reports Record Fourth Quarter and Fiscal Year 2006 Revenue

Condensed Consolidated Statements of Income

(In thousands, except per share data; unaudited)

	Three Months Ended		Year Ended	
	December 1, 2006	December 2, 2005	December 1, 2006	December 2, 2005
Revenue:				
Products	\$ 653,805	\$ 498,457	\$ 2,484,710	\$ 1,923,278
Services and support	28,370	11,914	90,590	43,043
Total revenue	<u>682,175</u>	<u>510,371</u>	<u>2,575,300</u>	<u>1,966,321</u>
Total cost of revenue:				
Products	61,080	24,720	226,506	89,942
Services and support	18,545	5,975	65,951	22,636
Total cost of revenue	<u>79,625</u>	<u>30,695</u>	<u>292,457</u>	<u>112,578</u>
Gross profit	602,550	479,676	2,282,843	1,853,743
Operating Expenses:				
Research and development	142,513	94,647	543,781	365,328
Sales and marketing	222,328	147,229	863,746	593,323
General and administrative	58,973	45,870	236,297	166,658
Restructuring and other charges	(518)	—	19,733	—
Amortization of purchased intangibles	17,762	—	69,873	—
Total operating expenses	<u>441,058</u>	<u>287,746</u>	<u>1,733,430</u>	<u>1,125,309</u>
Operating income	161,492	191,930	549,413	728,434
Non-operating income:				
Investment income (loss), net	64,967	4,998	61,249	(1,301)
Interest and other income	19,622	10,291	67,185	38,643
Total non-operating income	<u>84,589</u>	<u>15,289</u>	<u>128,434</u>	<u>37,342</u>
Income before income taxes	246,081	207,219	677,847	765,776
Provision for income taxes	64,226	50,968	173,427	162,937
Net income	<u>\$ 181,855</u>	<u>\$ 156,251</u>	<u>\$ 504,420</u>	<u>\$ 602,839</u>
Basic net income per share	<u>\$ 0.31</u>	<u>\$ 0.32</u>	<u>\$ 0.85</u>	<u>\$ 1.23</u>
Shares used in computing basic net income per share	<u>584,798</u>	<u>492,517</u>	<u>593,750</u>	<u>489,921</u>
Diluted net income per share	<u>\$ 0.30</u>	<u>\$ 0.31</u>	<u>\$ 0.82</u>	<u>\$ 1.19</u>
Shares used in computing diluted net income per share	<u>602,175</u>	<u>508,562</u>	<u>612,222</u>	<u>508,070</u>
Cash dividends declared per share	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 0.00625</u>

Adobe Reports Record Fourth Quarter and Fiscal Year 2006 Revenue

Condensed Consolidated Balance Sheets

(In thousands, except per share data; unaudited)

	December 1, 2006	December 2, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 772,500	\$ 420,818
Short-term investments	1,508,379	1,280,016
Trade receivables, net	356,815	173,245
Other receivables	51,851	31,504
Inventories	3,596	3,480
Deferred income taxes	155,613	59,548
Prepaid expenses and other current assets	35,715	40,805
Total current assets	<u>2,884,469</u>	<u>2,009,416</u>
Property and equipment, net	219,317	103,549
Goodwill	2,149,494	118,683
Purchased and other intangibles, net	506,405	16,477
Investment in lease receivable	126,800	126,800
Other assets	<u>68,183</u>	<u>66,228</u>
Total assets	<u>\$ 5,954,668</u>	<u>\$ 2,441,153</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade and other payables	\$ 55,031	\$ 41,042
Accrued expenses	297,550	226,915
Accrued restructuring	10,088	70
Income taxes payable	177,877	154,529
Deferred revenue	130,310	57,839
Total current liabilities	<u>670,856</u>	<u>480,395</u>
Other long-term liabilities		
Deferred revenue	32,644	9,731
Deferred income taxes	70,715	78,800
Accrued restructuring	21,984	—
Other long-term liabilities	<u>7,982</u>	<u>7,063</u>
Total liabilities	804,181	575,989
Stockholders' equity:		
Common stock, \$0.0001 par value	56	54
Additional paid-in-capital	2,508,961	1,378,114
Retained earnings	3,316,402	2,811,982
Accumulated other comprehensive income (loss)	6,344	(914)
Deferred compensation	(57,352)	—
Treasury stock at cost, net of re-issuances	<u>(623,924)</u>	<u>(2,324,072)</u>
Total stockholders' equity	<u>5,150,487</u>	<u>1,865,164</u>
Total liabilities and stockholders' equity	<u>\$ 5,954,668</u>	<u>\$ 2,441,153</u>

Adobe Reports Record Fourth Quarter and Fiscal Year 2006 Revenue

Condensed Consolidated Statements of Cash Flows

(In thousands; unaudited)

	Three Months Ended	
	December 1, 2006	December 2, 2005
Cash flows from operating activities:		
Net income	\$ 181,855	\$ 156,251
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	72,543	16,453
Stock-based compensation	39,512	101
Deferred income taxes	(41,124)	33,226
Provision for losses on receivables	383	369
Tax benefit from employee stock option plans	—	19,050
Excess tax benefits from stock-based compensation	(61,531)	—
Net gains on sales and impairments of investments	(74,269)	(4,995)
Changes in operating assets and liabilities, net of acquired assets and liabilities:		
Receivables	(78,358)	(7,993)
Other current assets	194	(4,075)
Trade and other payables	16,407	3,614
Accrued expenses	44,199	22,478
Accrued restructuring	(4,805)	—
Income taxes payable	104,006	(19,764)
Deferred revenue	38,163	7,560
Net cash provided by operating activities	<u>237,175</u>	<u>222,275</u>
Cash flows from investing activities:		
Purchases of short-term investments	(515,209)	(280,294)
Maturities of short-term investments	81,810	91,347
Sales of short-term investments	281,512	345,359
Purchases of property and equipment	(23,549)	(10,791)
Purchases of long-term investments and other assets	(26,613)	(7,858)
Proceeds from sale of equity securities and other assets	82,302	97
Net cash provided by (used for) investing activities	<u>(119,747)</u>	<u>137,860</u>
Cash flows from financing activities:		
Purchases of treasury stock	(200,163)	(500,007)
Proceeds from issuance of treasury stock	148,512	106,882
Excess tax benefits from stock-based compensation	61,531	—
Net cash provided by (used for) financing activities	<u>9,880</u>	<u>(393,125)</u>
Effect of foreign currency exchange rates on cash and cash equivalents	<u>438</u>	<u>(360)</u>
Net increase (decrease) in cash and cash equivalents	127,746	(33,350)
Cash and cash equivalents at beginning of period	<u>644,754</u>	<u>454,168</u>
Cash and cash equivalents at end of period	<u>\$ 772,500</u>	<u>\$ 420,818</u>

Page 8 of 12
Adobe Reports Record Fourth Quarter and Fiscal Year 2006 Revenue

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			Year Ended	
	December 1, 2006	December 2, 2005	September 1, 2006	December 1, 2006	December 2, 2005
GAAP operating income	\$ 161,492	\$ 191,930	\$ 110,033	\$ 549,413	\$ 728,434
SFAS 123R stock-based compensation*	30,006	—	27,186	106,846	—
Amortization of Macromedia deferred compensation*	9,505	—	15,471	63,686	—
Restructuring and other charges	(518)	—	32	19,733	—
Amortization of purchased intangibles and incomplete technology*	53,484	—	54,527	217,006	—
Non-GAAP operating income	<u>\$ 253,969</u>	<u>\$ 191,930</u>	<u>\$ 207,249</u>	<u>\$ 956,684</u>	<u>\$ 728,434</u>
GAAP net income	\$ 181,855	\$ 156,251	\$ 94,396	\$ 504,420	\$ 602,839
SFAS 123R stock -based compensation, net of tax	17,133	—	20,487	76,336	—
Amortization of Macromedia deferred compensation, net of tax	5,427	—	11,659	45,501	—
Restructuring and other charges, net of tax	(296)	—	24	14,098	—
Amortization of purchased intangibles and incomplete technology, net of tax	30,539	—	41,092	155,040	—
Investment (gain)loss, net of tax	(37,672)	(3,734)	3,827	(42,851)	975
Tax on foreign repatriation, net of tax	—	(1,043)	—	—	(28,693)
Non-GAAP net income	<u>\$ 196,986</u>	<u>\$ 151,474</u>	<u>\$ 171,485</u>	<u>\$ 752,544</u>	<u>\$ 575,121</u>
Diluted net income per share:					
GAAP net income	\$ 0.30	\$ 0.31	\$ 0.16	\$ 0.82	\$ 1.19
SFAS 123R stock -based compensation, net of tax	0.03	—	0.03	0.13	—
Amortization of Macromedia deferred compensation, net of tax	0.01	—	0.02	0.07	—
Restructuring and other charges, net of tax	0.00	—	0.00	0.02	—
Amortization of purchased intangibles and incomplete technology, net of tax	0.05	—	0.07	0.26	—
Investment (gain)loss, net of tax	(0.06)	(0.01)	0.01	(0.07)	0.00
Tax on foreign repatriation, net of tax	—	(0.00)	—	—	(0.06)
Non-GAAP net income	<u>\$ 0.33</u>	<u>\$ 0.30</u>	<u>\$ 0.29</u>	<u>\$ 1.23</u>	<u>\$ 1.13</u>
Shares used computing diluted net income per share	<u>602,175</u>	<u>508,562</u>	<u>600,882</u>	<u>612,222</u>	<u>508,070</u>

*See table below for classification on the Consolidated Statements of Income.

Adobe Reports Record Fourth Quarter and Fiscal Year 2006 Revenue

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

December 1, 2006.

Income Statement Classifications	<u>Total Stock-based Compensation</u>		
	<u>SFAS 123R</u>	<u>Amortization of Macromedia Deferred Compensation(a)</u>	<u>Amortization of Purchased Intangibles and Incomplete Technology</u>
Cost of revenue – products	\$ —	\$ —	\$ 34,722 (a)
Cost of revenue – services and support	750	1,134	—
Research and development	13,506	3,656	1,000 (b)
Sales and marketing	9,897	3,276	—
General and administrative	5,853	1,439	—
Amortization of purchased intangibles	—	—	17,762 (a)
Total	<u>\$ 30,006</u>	<u>\$ 9,505</u>	<u>\$ 53,484</u>

(a) Relates to Macromedia acquisition

(b) 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 for the quarter ended December 1, 2006.

	<u>Operating Expense as a Percent of Revenue</u>		
	<u>Research and Development</u>	<u>Sales and Marketing</u>	<u>General and Administrative</u>
GAAP	20.9%	32.6%	8.6%
SFAS 123R stock-based compensation	(2.0%)	(1.5%)	(0.9%)
Amortization of Macromedia deferred compensation	(0.6%)	(0.4%)	(0.1%)
Amortization of purchased intangibles and incomplete technology	(0.1%)	—	—
Non-GAAP	<u>18.2%</u>	<u>30.7%</u>	<u>7.6%</u>

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

	<u>Operating Expenses</u>
GAAP	\$ 441,058
SFAS 123R stock –based compensation	(29,255)
Amortization of Macromedia deferred compensation	(8,372)
Restructuring and other charges	518
Amortization of purchased intangibles and incomplete technology	(18,762)
Non-GAAP	<u>\$ 385,187</u>

Page 10 of 12
Adobe Reports Record Fourth Quarter and Fiscal Year 2006 Revenue

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

	<u>Gross Margin</u>
GAAP	88.3%
SFAS 123R stock –based compensation	0.1%
Amortization of Macromedia deferred compensation	0.2%
Amortization of purchased intangibles and incomplete technology	5.1%
Non-GAAP	<u>93.7%</u>

The following table shows the Company's reconciliation of non-GAAP to GAAP operating margin for fiscal 2006 and 2005.

	<u>2006</u>	<u>2005</u>
GAAP	21.3%	37.0%
SFAS 123R stock –based compensation	4.1%	—
Amortization of Macromedia deferred compensation	2.5%	—
Restructuring and other charges	0.8%	—
Amortization of purchased intangibles and incomplete technology	8.4%	—
Non-GAAP	<u>37.1%</u>	<u>37.0%</u>

The following table shows the Company's reconciliation of non-GAAP to GAAP effective tax rate for the quarter ended December 1, 2006.

	<u>Effective Tax Rate</u>
GAAP	26.1%
SFAS 123R stock –based compensation	0.5%
Amortization of Macromedia deferred compensation	0.1%
Amortization of purchased intangibles and incomplete technology	0.2%
Investment gain	1.1%
Non-GAAP	<u>28.0%</u>

Adobe Reports Record Fourth Quarter and Fiscal Year 2006 Revenue

First Quarter and Fiscal Year 2007 Non-GAAP Financial Targets

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

	First Quarter Fiscal 2007		Fiscal Year 2007	
	Low	High	Low	High
GAAP operating margin	19%	21%	25%	27%
Purchase accounting adjustments:				
Amortization of purchased technology	4	4	4	4
Amortization of other intangibles and deferred compensation	4	5	3	3
Stock-based compensation impact of SFAS 123R	6	4	5	4
Non-GAAP operating margin	<u>33%</u>	<u>34%</u>	<u>37%</u>	<u>38%</u>

	First Quarter Fiscal 2007	
	Low	High
Diluted net income per share:		
GAAP earnings per share	\$ 0.17	\$ 0.20
Purchase accounting adjustments:		
Amortization of purchased technology	0.03	0.03
Amortization of other intangibles and deferred compensation	0.03	0.03
Stock-based compensation impact of SFAS 123R	0.05	0.04
Non-GAAP earnings per share	<u>\$ 0.28</u>	<u>\$ 0.30</u>
Shares used in computing diluted net income per share	<u>611.0</u>	<u>609.0</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 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

Adobe Reports Record Fourth Quarter and Fiscal Year 2006 Revenue

123R, restructuring and other charges, amortization of purchased intangibles and incomplete technology, amortization of Macromedia deferred compensation, investment gains and losses, tax differences due to the timing and deductibility of certain adjustments, net tax impact of the repatriation of certain foreign earnings 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 due to the timing and deductibility of certain adjustments. 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.

**FINANCIAL DISCLAIMER*****Factors that may affect future results of operations***

Our actual results could differ materially from our forward looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed below. These and other factors described could adversely affect our operations, performance and financial condition.

Delays in development or shipment of new products or major new versions of existing products could cause a decline in our revenue.

Any delays or failures in developing and marketing our products, including upgrades of current products and the integration of Macromedia products into our product line, may have a harmful impact on our results of operations. We may have particular difficulty and delays developing products that integrate Adobe and Macromedia products, since our products are highly complex, have been designed independently and were designed without regard to such integration. Our inability to extend our core technologies into new applications and new platforms and to anticipate or respond to technological changes could affect continued market acceptance of our products and our ability to develop new products. Delays in product or upgrade introductions could cause a decline in our revenue, earnings or stock price. We cannot determine the ultimate effect these delays or the introduction of new products or upgrades will have on our revenue or results of operations.

Introduction of new products by existing and new competitors could harm our competitive position and results of operations.

The end markets for our software products are intensely and increasingly competitive, and are significantly affected by product introductions and market activities of industry competitors, including Microsoft's announced introduction of its new Vista operating system which contains a new fixed document format, XPS, which will compete with Adobe PDF, and its introduction of Office 12 which offers a feature to save Microsoft Office documents as PDF files through a freely distributed plug-in, which competes with Adobe PDF creation. If these competing products achieve widespread acceptance, our operating results could suffer. In addition, consolidation has occurred among some of the competitors in our markets. Any further consolidations among our competitors may result in stronger competitors and may therefore harm our results of operations. For additional information regarding our competition and the risks arising out of the competitive environment in which we operate, see the section entitled "Competition" in our most recently filed Annual Report on form 10-K.

If we fail to successfully manage transitions to new business models and markets, our results of operations could be negatively impacted.

We are devoting significant resources to the development of technologies and service offerings where we have a limited operating history, including the enterprise and government markets and the mobile and device markets. In the enterprise and government markets, we intend to increase our focus on vertical markets such as education, financial services, manufacturing, and the architecture, engineering and construction markets. With our Adobe Acrobat Connect product line, we intend to increase awareness in targeted horizontal markets such as training and marketing and vertical markets such as manufacturing, financial services and telecommunications. These new offerings and markets require a considerable investment of technical, financial and sales resources, and a scalable organization. Many of our competitors may have advantages over us due to their larger presence, larger developer network, deeper experience in the enterprise and government markets and the mobile and device markets, and greater sales and marketing resources. In the mobile and device markets, our intent is to license our technology to device makers, manufacturers and telecommunications carriers that embed our technology on their platforms, and in the enterprise and government market our intent is to form strategic alliances with leading enterprise and government solutions and service providers to provide additional resources to further enable penetration of such markets. If we are unable to successfully enter into strategic alliances with device makers, manufacturers, telecommunication carriers and leading enterprise and government solutions and service providers, or if they are not as productive as we anticipate, our market penetration may not proceed as rapidly as we anticipate and our results of operations could be negatively impacted. Another development is the software-as-a-service business model, by which companies provide applications, data and related services over the Internet. Providers use primarily advertising or subscription-based revenue models. Recent advances in computing and communications technologies have made this model viable and could enable the rapid growth of some of our competitors. We are exploring the development of our own software-as-a-service strategies. It is uncertain whether these strategies will prove successful. Additionally, customer requirements for "open standards" or "open source" products could impact sales with respect to some of our products.

Adverse changes in general economic or political conditions in any of the major countries in which we do business could adversely affect our operating results.

If the economy worsens in any geographic areas where we do business, it would likely cause our future results to vary materially from our targets. A slower economy also may adversely affect our ability to grow. Political instability in any of the major countries in which we do business also may adversely affect our business.

Revenues from our new businesses may be difficult to predict.

As previously discussed, we are devoting significant resources to the development of product and service offerings where we have a limited operating history. This makes it difficult to predict revenues. Additionally, we intend to expand the use of our Mobile and Device Solutions by licensing our products for use in mobile phones, set-top boxes, game devices, personal digital assistants, hand-held computers and other consumer electronic devices; however, we have a limited history of licensing products in these markets and may experience a number of factors that will make our revenue less predictable, including longer than expected sales and implementation cycles, potential deferral of revenue due to multiple-element revenue arrangements and alternate licensing arrangements.

If we fail to anticipate and develop new products in response to changes in demand for application software, computers, printers, or other non PC-devices our business could be harmed.

Any failure to anticipate changing customer requirements and develop and deploy new products in response to changing market conditions may have a material impact on our results of operations. As previously discussed, we plan to release numerous new product offerings and upgrade versions of our current products in connection with our transition to new business models and the acquisition of Macromedia. Market acceptance of our new product or version releases will be dependent on our ability to include functionality and usability in such releases that address the requirements of customer demographics with which we have limited prior experience. To the extent we incorrectly estimate customer requirements for such products and version releases or if there is a delay in market acceptance of such products and version releases, our business could be harmed.

We offer our Creative Solutions and Knowledge Worker Solutions application-based products primarily on Windows and Macintosh platforms and on

some UNIX platforms. We generally offer our server-based products, but not desktop application products, on the Linux platform as well as the Windows and UNIX platforms. To the extent that there is a slowdown of customer purchases of personal computers on either the Windows or Macintosh platform or in general, or to the extent that significant demand arises for our products or competitive products on the Linux desktop platform before we choose and are able to offer our products on this platform, our business could be harmed. Additionally, to the extent that we have difficulty transitioning product or version releases to new Windows and Macintosh operating systems, e.g., porting our applications to the "Mactel" platform, or to the extent new releases of operating systems or other third party products make it more difficult for our products to perform, our business could be harmed.

We may incur substantial costs enforcing or acquiring intellectual property rights and defending against third-party claims as a result of litigation or other proceedings.

In connection with the enforcement of our own intellectual property rights, the acquisition of third-party intellectual property rights or disputes relating to the validity or alleged infringement of third-party rights, including patent rights, we have been, are currently and may in the future be subject to claims, negotiations or complex, protracted litigation. Intellectual property disputes and litigation are typically very costly and can be disruptive to our business operations by diverting the attention and energies of management and key technical personnel. Although we have successfully defended or resolved past litigation and disputes, we may not prevail in any ongoing or future litigation and disputes. We may incur significant costs in acquiring the necessary third party intellectual property rights for use in our products. Third party intellectual property disputes could subject us to significant liabilities, require us to enter into royalty and licensing arrangements on less favorable terms, prevent us from manufacturing or licensing certain of our products, cause severe disruptions to our operations or the markets in which we compete, or require us to satisfy indemnification commitments with our customers including contractual provisions under various license arrangements any one of which could seriously harm our business.

We may not be able to protect our intellectual property rights, including our source code, from third-party infringers, or unauthorized copying, use, disclosure or malicious attack.

Although we defend our intellectual property rights and combat unlicensed copying and use of software and intellectual property rights through a variety of techniques, preventing unauthorized use or infringement of our rights is inherently difficult. We actively pursue software pirates as part of our enforcement of our intellectual property rights, but we nonetheless lose revenue due to illegal use of our software. If piracy activities increase, it may further harm our business.

Additionally, we take significant measures to protect the secrecy of our confidential information and trade secrets, including our source code (the detailed program commands for our software programs). If unauthorized disclosure of our source code occurs, we could potentially lose future trade secret protection for that source code. The loss of future trade secret protection could make it easier for third parties to compete with our products by copying functionality, which could adversely affect our revenue and operating margins. We also seek to protect our confidential information and trade secrets through the use of non-disclosure agreements with our customers, contractors, vendors, and partners. However there is a risk that our confidential information and trade secrets may be disclosed or published without our authorization, and in these situations it may be difficult and or costly for us to enforce our rights.

We also devote significant resources to maintaining the security of our products from malicious hackers who develop and deploy viruses, worms, and other malicious software programs that attack our products. Nevertheless, actual or perceived security vulnerabilities in our products could harm our reputation and lead some customers to seek to return products, to reduce or delay future purchases, to use competitive products or to make claims against us. Also, with the introduction of hosted services with some of our product offerings, our customers may use such services to share confidential and sensitive information. If a breach of security occurs on these hosted systems, we could be held liable to our customers. Additionally, such breaches could lead to interruptions, delays and data loss and protection concerns as well as harm to our reputation.

We may not realize the anticipated benefits of past or future acquisitions, and integration of these acquisitions may disrupt our business.

We have in the past and may in the future acquire additional companies, products or technologies. We may not realize the anticipated benefits of an acquisition and each acquisition has numerous risks. These risks include:

- difficulty in assimilating the operations and personnel of the acquired company;
- difficulty in effectively integrating the acquired technologies or products with our current products and technologies;
- difficulty in maintaining controls, procedures and policies during the transition and integration;
- disruption of our ongoing business and distraction of our management and employees from other opportunities and challenges due to integration issues;
- difficulty integrating the acquired company's accounting, management information, human resources and other administrative systems;
- inability to retain key technical and managerial personnel of the acquired business;
- inability to retain key customers, distributors, vendors and other business partners of the acquired business;
- inability to achieve the financial and strategic goals for the acquired and combined businesses;
- incurring acquisition-related costs or amortization costs for acquired intangible assets that could impact our operating results;
- potential impairment of our relationships with employees, customers, partners, distributors or third-party providers of technology or products;
- potential failure of the due diligence processes to identify significant issues with product quality, architecture and development, or legal and financial contingencies, among other things;
- incurring significant exit charges if products acquired in business combinations are unsuccessful;
- potential inability to assert that internal controls over financial reporting are effective;
- potential inability to obtain, or obtain in a timely manner, approvals from governmental authorities, which could delay or prevent such acquisitions; and
- potential delay in customer and distributor purchasing decisions due to uncertainty about the direction of our product offerings.

Mergers and acquisitions of high technology companies are inherently risky, and ultimately, if we do not complete the integration of acquired businesses successfully and in a timely manner, we may not realize the anticipated benefits of the acquisitions to the extent anticipated, which could adversely affect our business, financial condition or results of operations.

We rely on distributors to sell our products and any adverse change in our relationship with our distributors could result in a loss of revenue and harm our business.

We distribute our application products primarily through distributors, resellers, retailers and increasingly systems integrators, ISVs and VARs (collectively referred to as "distributors"). A significant amount of our revenue for application products is from two distributors, Ingram Micro, Inc. and Tech Data Corporation. In addition, our channel program focuses our efforts on larger distributors, which has resulted in our dependence on a relatively small number of distributors licensing a large amount of our products. Our distributors also sell our competitors' products, and if they favor our competitors' products for any reason, they may fail to market our products as effectively or to devote resources necessary to provide effective sales, which would cause our results to suffer. In addition, the financial health of these distributors and our continuing relationships with them are important to our success. Some of these distributors may be unable to withstand adverse changes in business conditions. Our business could be seriously harmed if the financial condition of some of these distributors substantially weakens.

Catastrophic events may disrupt our business.

We are a highly automated business and rely on our network infrastructure and enterprise applications, internal technology systems and our Website for our development, marketing, operational, support and sales activities. A disruption or failure of these systems in the event of a major earthquake, fire, telecommunications failure, cyber-attack, terrorist attack, or other catastrophic event could cause system interruptions, delays in our product development and loss of critical data and could prevent us from fulfilling our customers' orders. Our corporate headquarters, a significant portion of our research and development activities, our data centers, and certain other critical business operations are located in San Jose, California, which is near major earthquake faults. We believe we have developed sufficient disaster recovery plans and backup systems to reduce the potentially adverse effect of such events, but a catastrophic event that results in the destruction or disruption of any of our critical business or information technology systems could severely affect our ability to conduct normal business operations and, as a result, our future operating results could be adversely affected.

We rely on turnkey assemblers and any adverse change in our relationship with our turnkey assemblers could result in a loss of revenue and harm our business.

We currently rely on six turnkey assemblers of our products, with at least two turnkeys located in each major region we serve. If any significant turnkey assembler terminates its relationship with us, or if our supply from any significant turnkey assembler is interrupted or terminated for any other reason, we may not have enough time or be able to replace the supply of products replicated by that turnkey assembler to avoid serious harm to our business.

Our future operating results are difficult to predict and are likely to fluctuate substantially from quarter to quarter and as a result the market price of our common stock may be volatile and our stock price could decline.

As a result of a variety of factors discussed herein, our quarterly revenues and operating results for a particular period are difficult to predict. Our revenues may grow at a slower rate than experienced in previous periods and, in particular periods, may decline. Additionally, we periodically provide operating model targets. These targets reflect a number of assumptions, including assumptions about product pricing and demand, economic and seasonal trends, competitive factors, manufacturing costs and volumes, the mix of shrink-wrap and licensing revenue, full and upgrade products, distribution channels and geographic markets. If one or more of these assumptions prove incorrect, our actual results may vary materially from those anticipated, estimated or projected.

Due to the factors noted above, our future earnings and stock price may be subject to volatility, particularly on a quarterly basis. Shortfalls in revenue or earnings or delays in the release of products or upgrades compared to analysts' or investors' expectations have caused and could cause in the future an immediate and significant decline in the trading price of our common stock. Additionally, we may not learn of such shortfalls or delays until late in the fiscal quarter, which could result in an even more immediate and greater decline in the trading price of our common stock. Finally, we participate in a highly dynamic industry. In addition to factors specific to us, changes in analysts' earnings estimates for us or our industry, and factors affecting the corporate environment, our industry, or the securities markets in general, have resulted, and may in the future result, in volatility of our common stock price.

We are subject to risks associated with international operations which may harm our business.

We typically generate over 50% of our total revenue from sales to customers outside of the Americas. Sales to these customers subject us to a number of risks, including (i) foreign currency fluctuations, (ii) changes in government preferences for software procurement, (iii) international economic and political conditions, (iv) unexpected changes in, or impositions of, international legislative or regulatory requirements, (v) inadequate local infrastructure, (vi) delays resulting from difficulty in obtaining export licenses for certain technology, tariffs, quotas and other trade barriers and restrictions, (vii) transportation delays, (viii) the burdens of complying with a variety of foreign laws, including more stringent consumer and data protection laws, and other factors beyond our control, including terrorism, war, natural disasters and diseases. If sales to any of our customers outside of the Americas are delayed or cancelled because of any of the above factors, our revenue may be negatively impacted.

We may incur losses associated with currency fluctuations and may not be able to effectively hedge our exposure.

Our operating results are subject to fluctuations in foreign currency exchange rates. We attempt to mitigate a portion of these risks through foreign currency hedging, based on our judgment of the appropriate trade-offs among risk, opportunity and expense. We have established a hedging program to partially hedge our exposure to foreign currency exchange rate fluctuations, primarily the Japanese yen and the euro. We regularly review our hedging program and will make adjustments as necessary based on the judgment factors discussed above. Our hedging activities may not offset more than a portion of the adverse financial impact resulting from unfavorable movement in foreign currency exchange rates, which could adversely affect our financial condition or results of operations.

We may suffer losses from our equity investments which could harm our business.

We hold equity investments in public companies that have experienced significant declines in market value. We also have investments and plan to continue to make future investments in privately held companies, many of which are considered in the start-up or development stages. These investments are inherently risky, as the market for the technologies or products these companies have under development is typically in the early stages and may never materialize. Our investment activities can impact our net income. Future price fluctuations in these securities and any significant long-term declines in value of any of our investments could reduce our net income in future periods.



Changes in, or interpretations of, accounting principles could result in unfavorable accounting charges.

We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles. These principles are subject to interpretation by the SEC and various bodies formed to interpret and create appropriate accounting principles. A change in these principles can have a significant effect on our reported results and may even retroactively affect previously reported transactions. Our accounting principles that recently have been or may be affected by changes in the accounting principles are as follows:

- software revenue recognition;
- accounting for stock-based compensation;
- accounting for income taxes; and
- accounting for business combinations and related goodwill

In particular, in the first quarter of fiscal 2006, we adopted SFAS 123R which requires the measurement of all stock-based compensation to employees, including grants of employee stock options, using a fair-value-based method and the recording of such expense in our consolidated statements of income. The adoption of SFAS 123R had a significant adverse effect on our reported financial results. It will continue to significantly adversely affect our reported financial results and may impact the way in which we conduct our business.

If our goodwill or amortizable intangible assets become impaired we may be required to record a significant charge to earnings.

Under generally accepted accounting principles, we review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or amortizable intangible assets may not be recoverable include a decline in stock price and market capitalization, future cash flows, and slower growth rates in our industry. We may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined resulting in an impact on our results of operations.

Changes in, or interpretations of, tax rules and regulations may adversely affect our effective tax rates.

Unanticipated changes in our tax rates could affect our future results of operations. Our future effective tax rates could be unfavorably affected by changes in tax laws or the interpretation of tax laws, by unanticipated decreases in the amount of revenue or earnings in countries with low statutory tax rates, or by changes in the valuation of our deferred tax assets and liabilities. In addition, we are subject to the continual examination of our income tax returns by the Internal Revenue Service and other domestic and foreign tax authorities, including a current examination by the Internal Revenue Service for our fiscal 2001, 2002 and 2003 tax returns, primarily related to our intercompany transfer pricing. We regularly assess the likelihood of outcomes resulting from these examinations to determine the adequacy of our provision for income taxes and have reserved for potential adjustments that may result from the current examination. We believe such estimates to be reasonable; however, there can be no assurance that the final determination of any of these examinations will not have an adverse effect on our operating results and financial position.

If we are unable to recruit and retain key personnel our business may be harmed.

Much of our future success depends on the continued service and availability of our senior management, including our Chief Executive Officer and other members of our executive team. These individuals have acquired specialized knowledge and skills with respect to Adobe. The loss of any of these individuals could harm our business. Our business is also dependent on our ability to retain, hire and motivate talented, highly skilled personnel. Experienced personnel in the information technology industry are in high demand and competition for their talents is intense, especially in the Silicon Valley, where the majority of our employees are located. We have relied on our ability to grant equity compensation as one mechanism for recruiting and retaining such highly skilled personnel. Recently enacted accounting regulations requiring the expensing of equity compensation may impair our ability to provide these incentives without incurring significant compensation costs. If we are unable to continue to successfully attract and retain key personnel, our business may be harmed.