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.
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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.
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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.
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