

INTERWOVEN, INC.

Impact of Non-GAAP Adjustments on Reported Net Income (Loss)

(In thousands, except per share data)
(Unaudited)

	Three Months Ended			Three Months Ended		
	June 30, 2006			June 30, 2005		
	<u>As reported</u>	<u>Adjustments</u>	<u>Non-GAAP</u>	<u>As reported</u>	<u>Adjustments</u>	<u>Non-GAAP</u>
Revenues:						
License	\$ 18,508	\$ —	\$ 18,508	\$ 14,666	\$ —	\$ 14,666
Support and service	<u>30,521</u>	<u>—</u>	<u>30,521</u>	<u>26,368</u>	<u>—</u>	<u>26,368</u>
Total revenues	49,029	—	49,029	41,034	—	41,034
Cost of revenues:						
License (1)	4,417	(3,623)	794	3,342	(2,725)	617
Support and service (2)	<u>12,327</u>	<u>(137)</u>	<u>12,190</u>	<u>10,227</u>	<u>(18)</u>	<u>10,209</u>
Total cost of revenues	<u>16,744</u>	<u>(3,760)</u>	<u>12,984</u>	<u>13,569</u>	<u>(2,743)</u>	<u>10,826</u>
Gross profit	32,285	3,760	36,045	27,465	2,743	30,208
Operating expenses:						
Sales and marketing (2)	19,168	(237)	18,931	16,671	(47)	16,624
Research and development (2)	8,528	(158)	8,370	7,842	(61)	7,781
General and administrative (2)	3,791	(33)	3,758	3,122	(157)	2,965
Amortization of intangible assets (1)	828	(828)	—	782	(782)	—
Restructuring and excess facilities charges (3)	<u>(591)</u>	<u>591</u>	<u>—</u>	<u>(303)</u>	<u>303</u>	<u>—</u>
Total operating expenses	<u>31,724</u>	<u>(665)</u>	<u>31,059</u>	<u>28,114</u>	<u>(744)</u>	<u>27,370</u>
Income (loss) from operations	561	4,425	4,986	(649)	3,487	2,838
Interest income and other, net	<u>1,531</u>	<u>—</u>	<u>1,531</u>	<u>908</u>	<u>—</u>	<u>908</u>
Income before taxes	2,092	4,425	6,517	259	3,487	3,746
Provision for income taxes (4)	<u>315</u>	<u>1,901</u>	<u>2,216</u>	<u>325</u>	<u>949</u>	<u>1,274</u>
Net income (loss)	<u>\$ 1,777</u>	<u>\$ 2,524</u>	<u>\$ 4,301</u>	<u>\$ (66)</u>	<u>\$ 2,538</u>	<u>\$ 2,472</u>
Net income (loss) per share	<u>\$ 0.04</u>		<u>\$ 0.10</u>	<u>\$ (0.00)</u>		<u>\$ 0.06</u>
Shares used in computing net income (loss) per share (5)	<u>43,350</u>		<u>43,350</u>	<u>41,635</u>		<u>42,154</u>

- (1) For the three months ended June 30, 2006 and 2005, adjustments reflect the reversal of \$3.6 million and \$2.7 million, respectively, associated with the amortization of purchased technology and \$828,000 and \$782,000, respectively, associated with the amortization of intangible assets.
- (2) As of January 1, 2006, the Company adopted Statement of Financial Accounting Standard No. 123R, *Share-based Payment*. For the three months ended June 30, 2006, adjustments reflect the reversal of stock-based compensation expense of \$137,000 in cost of revenues – support and service, \$237,000 in sales and marketing, \$158,000 in research and development and \$33,000 in general and administrative. For the three months ended June 30, 2005, adjustments reflect the reversal of amortization of deferred stock-based compensation of \$18,000 in cost of revenues – support and service, \$47,000 in sales and marketing, \$61,000 in research and development and \$157,000 in general and administrative.
- (3) For the three months ended June 30, 2006 and 2005, adjustments reflect the reversal of \$591,000 and \$303,000, respectively, in adjustments associated with the Company's restructuring and excess facilities accrual.

- (4) For the three months ended June 30, 2006 and 2005, adjustments reflect an additional tax provision of \$1.9 million and \$949,000, respectively, associated with the non-GAAP adjustments.
- (5) For the three months ended June 30, 2005, the shares used in computing non-GAAP net income per share include the dilutive impact of common stock options of 519,000 shares.

INTERWOVEN, INC.
Impact of Non-GAAP Adjustments on Reported Net Income (Loss)

(In thousands, except per share data)
(Unaudited)

	Six Months Ended June 30, 2006			Six Months Ended June 30, 2005		
	<u>As reported</u>	<u>Adjustments</u>	<u>Non-GAAP</u>	<u>As reported</u>	<u>Adjustments</u>	<u>Non-GAAP</u>
Revenues:						
License	\$ 36,077	\$ —	\$ 36,077	\$ 31,083	\$ —	\$ 31,083
Support and service	<u>59,410</u>	<u>—</u>	<u>59,410</u>	<u>52,436</u>	<u>—</u>	<u>52,436</u>
Total revenues	95,487	—	95,487	83,519	—	83,519
Cost of revenues:						
License (1)	8,589	(7,120)	1,469	6,830	(5,450)	1,380
Support and service (2)	<u>24,184</u>	<u>(337)</u>	<u>23,847</u>	<u>20,256</u>	<u>(46)</u>	<u>20,210</u>
Total cost of revenues	<u>32,773</u>	<u>(7,457)</u>	<u>25,316</u>	<u>27,086</u>	<u>(5,496)</u>	<u>21,590</u>
Gross profit	62,714	7,457	70,171	56,433	5,496	61,929
Operating expenses:						
Sales and marketing (2)	37,569	(615)	36,954	33,999	(256)	33,743
Research and development (2)	17,082	(360)	16,722	16,010	(142)	15,868
General and administrative (2) (3)	9,051	(1,727)	7,324	6,730	(349)	6,381
Amortization of intangible assets (1)	1,656	(1,656)	—	1,638	(1,638)	—
Restructuring and excess facilities charges (4)	<u>(928)</u>	<u>928</u>	<u>—</u>	<u>(633)</u>	<u>633</u>	<u>—</u>
Total operating expenses	<u>64,430</u>	<u>(3,430)</u>	<u>61,000</u>	<u>57,744</u>	<u>(1,752)</u>	<u>55,992</u>
Income (loss) from operations	(1,716)	10,887	9,171	(1,311)	7,248	5,937
Interest income and other, net	<u>2,805</u>	<u>—</u>	<u>2,805</u>	<u>1,621</u>	<u>—</u>	<u>1,621</u>
Income before taxes	1,089	10,887	11,976	310	7,248	7,558
Provision for income taxes (5)	<u>755</u>	<u>3,317</u>	<u>4,072</u>	<u>625</u>	<u>1,945</u>	<u>2,570</u>
Net income (loss)	<u>\$ 334</u>	<u>\$ 7,570</u>	<u>\$ 7,904</u>	<u>\$ (315)</u>	<u>\$ 5,303</u>	<u>\$ 4,988</u>
Net income (loss) per share	<u>\$ 0.01</u>		<u>\$ 0.18</u>	<u>\$ (0.01)</u>		<u>\$ 0.12</u>
Shares used in computing net income (loss) per share (6)	<u>43,210</u>		<u>43,210</u>	<u>41,386</u>		<u>42,007</u>

- (1) For the six months ended June 30, 2006 and 2005, adjustments reflect the reversal of \$7.1 million and \$5.5 million, respectively, associated with the amortization of purchased technology and \$1.7 million and \$1.6 million, respectively, associated with the amortization of intangible assets.
- (2) As of January 1, 2006, the Company adopted Statement of Financial Accounting Standard No. 123R, *Share-based Payment*. For the six months ended June 30, 2006, adjustments reflect the reversal of stock-based compensation expense of \$337,000 in cost of revenues – support and service, \$615,000 in sales and marketing, \$360,000 in research and development and \$107,000 in general and administrative. For the six months ended June 30, 2005, adjustments reflect the reversal of amortization of deferred stock-based compensation of \$46,000 in cost of revenues – support and service, \$256,000 in sales and marketing, \$142,000 in research and development and \$349,000 in general and administrative.
- (3) For the six months ended June 30, 2006, adjustments reflect the reversal of \$1.6 million in benefit costs associated with the retirement of the Company's Chief Executive Officer recorded in the first quarter of 2006.

- (4) For the six months ended June 30, 2006 and 2005, adjustments reflect the reversal of \$928,000 and \$633,000, respectively, in adjustments associated with the Company's restructuring and excess facilities accrual.
- (5) For the six months ended June 30, 2006 and 2005, adjustments reflect an additional tax provision of \$3.3 million and \$1.9 million, respectively, associated with the non-GAAP adjustments.
- (6) For the six months ended June 30, 2005, the shares used in computing non-GAAP net income include the dilutive impact of common stock options of 621,000, respectively.