

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

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

	Three Months Ended September 30, 2008			Three Months Ended September 30, 2007		
	<u>As reported</u>	<u>Adjustments</u>	<u>Non-GAAP</u>	<u>As reported</u>	<u>Adjustments</u>	<u>Non-GAAP</u>
Revenues:						
License	\$ 24,160	\$ —	\$ 24,160	\$ 21,225	\$ —	\$ 21,225
Support and service	<u>41,705</u>	<u>—</u>	<u>41,705</u>	<u>34,228</u>	<u>—</u>	<u>34,228</u>
Total revenues	65,865	—	65,865	55,453	—	55,453
Cost of revenues:						
License (1)	1,587	(619)	968	1,859	(977)	882
Support and service (1) (2)	<u>16,743</u>	<u>(733)</u>	<u>16,010</u>	<u>13,915</u>	<u>(169)</u>	<u>13,746</u>
Total cost of revenues	<u>18,330</u>	<u>(1,352)</u>	<u>16,978</u>	<u>15,774</u>	<u>(1,146)</u>	<u>14,628</u>
Gross profit	47,535	1,352	48,887	39,679	1,146	40,825
Operating expenses:						
Sales and marketing (2)	22,311	(803)	21,508	19,000	(450)	18,550
Research and development (2)	10,513	(493)	10,020	9,552	(213)	9,339
General and administrative (2) (3)	6,251	(705)	5,546	6,812	(2,783)	4,029
Amortization of intangible assets (1)	734	(734)	—	814	(814)	—
Restructuring and excess facilities charges (4)	<u>18</u>	<u>(18)</u>	<u>—</u>	<u>1</u>	<u>(1)</u>	<u>—</u>
Total operating expenses	<u>39,827</u>	<u>(2,753)</u>	<u>37,074</u>	<u>36,179</u>	<u>(4,261)</u>	<u>31,918</u>
Income from operations	7,708	4,105	11,813	3,500	5,407	8,907
Interest income and other, net	<u>878</u>	<u>—</u>	<u>878</u>	<u>2,199</u>	<u>—</u>	<u>2,199</u>
Income before provision for income taxes	8,586	4,105	12,691	5,699	5,407	11,106
Provision for income taxes (5)	<u>849</u>	<u>3,466</u>	<u>4,315</u>	<u>1,638</u>	<u>2,138</u>	<u>3,776</u>
Net income	<u>\$ 7,737</u>	<u>\$ 639</u>	<u>\$ 8,376</u>	<u>\$ 4,061</u>	<u>\$ 3,269</u>	<u>\$ 7,330</u>
Diluted net income per common share	<u>\$ 0.16</u>		<u>\$ 0.18</u>	<u>\$ 0.09</u>		<u>\$ 0.16</u>
Shares used in computing diluted net income per common share	<u>47,133</u>		<u>47,133</u>	<u>46,538</u>		<u>46,538</u>

- (1) For the three months ended September 30, 2008, adjustments reflect the reversal of amortization of purchased technology of \$619,000 in cost of revenues – license and \$379,000 in cost of revenues - support and service. For the three months ended September 30, 2007 adjustments reflect the reversal of amortization of purchased technology of \$1.0 million in cost of revenues – license and none in cost of revenues - support and service. For the three months ended September 30, 2008 and 2007, adjustments reflect the reversal of \$734,000 and \$814,000, respectively, associated with the amortization of intangible assets.
- (2) For the three months ended September 30, 2008 and 2007, adjustments reflect the reversal of stock-based compensation expense of \$354,000 and \$169,000, respectively, in cost of revenues – support and service, \$803,000 and \$450,000, respectively, in sales and marketing, \$493,000 and \$213,000, respectively, in research and development and \$705,000 and \$469,000, respectively, in general and administrative.

- (3) For the three months ended September 30, 2007, adjustment reflects the reversal of \$2.3 million in expenses incurred in connection with the Company's voluntary review of historical stock option grant procedures and related accounting.
- (4) For the three months ended September 30, 2008 and 2007, adjustments reflect the reversal of \$18,000 and \$1,000, respectively, in adjustments associated with the Company's restructuring and excess facilities accrual.
- (5) For the three months ended September 30, 2008 and 2007, adjustments reflect an additional hypothetical tax provision of \$3.5 million and \$2.1 million, respectively, associated with the non-GAAP adjustments.

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

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

	Nine Months Ended September 30, 2008			Nine Months Ended September 30, 2007		
	<u>As reported</u>	<u>Adjustments</u>	<u>Non-GAAP</u>	<u>As reported</u>	<u>Adjustments</u>	<u>Non-GAAP</u>
Revenues:						
License	\$ 69,510	\$ —	\$ 69,510	\$ 61,856	\$ —	\$ 61,856
Support and service	<u>120,974</u>	<u>—</u>	<u>120,974</u>	<u>100,927</u>	<u>—</u>	<u>100,927</u>
Total revenues	190,484	—	190,484	162,783	—	162,783
Cost of revenues:						
License (1)	5,531	(2,475)	3,056	5,905	(3,429)	2,476
Support and service (1) (2)	<u>48,255</u>	<u>(2,086)</u>	<u>46,169</u>	<u>40,548</u>	<u>(460)</u>	<u>40,088</u>
Total cost of revenues	<u>53,786</u>	<u>(4,561)</u>	<u>49,225</u>	<u>46,453</u>	<u>(3,889)</u>	<u>42,564</u>
Gross profit	136,698	4,561	141,259	116,330	3,889	120,219
Operating expenses:						
Sales and marketing (2)	67,018	(2,436)	64,582	59,008	(1,325)	57,683
Research and development (2)	30,145	(1,287)	28,858	27,928	(651)	27,277
General and administrative (2) (3)	17,332	(2,598)	14,734	17,742	(6,455)	11,287
Amortization of intangible assets (1)	2,070	(2,070)	—	2,470	(2,470)	—
Restructuring and excess facilities charges (recoveries) (4)	<u>14</u>	<u>(14)</u>	<u>—</u>	<u>65</u>	<u>(65)</u>	<u>—</u>
Total operating expenses	<u>116,579</u>	<u>(8,405)</u>	<u>108,174</u>	<u>107,213</u>	<u>(10,966)</u>	<u>96,247</u>
Income from operations	20,119	12,966	33,085	9,117	14,855	23,972
Interest income and other, net (5)	<u>3,305</u>	<u>—</u>	<u>3,305</u>	<u>6,973</u>	<u>(472)</u>	<u>6,501</u>
Income before provision for income taxes	23,424	12,966	36,390	16,090	14,383	30,473
Provision for income taxes (6)	<u>2,086</u>	<u>10,287</u>	<u>12,373</u>	<u>3,096</u>	<u>7,265</u>	<u>10,361</u>
Net income	<u>\$ 21,338</u>	<u>\$ 2,679</u>	<u>\$ 24,017</u>	<u>\$ 12,994</u>	<u>\$ 7,118</u>	<u>\$ 20,112</u>
Diluted net income per common share	<u>\$ 0.45</u>		<u>\$ 0.52</u>	<u>\$ 0.28</u>		<u>\$ 0.43</u>
Shares used in computing diluted net income per common share	<u>46,696</u>		<u>46,696</u>	<u>46,555</u>		<u>46,555</u>

- (1) For the nine months ended September 30, 2008, adjustments reflect the reversal of amortization of purchased technology of \$2.5 million in cost of revenues – license and \$1.1 million in cost of revenues - support and service. For the nine months ended September 30, 2007 adjustments reflect the reversal of amortization of purchased technology of \$3.4 million in cost of revenues – license and none in cost of revenues - support and service. For the nine months ended September 30, 2008 and 2007, adjustments reflect the reversal of \$2.1 million and \$2.5 million, respectively, associated with the amortization of intangible assets.
- (2) For the nine months ended September 30, 2008 and 2007, adjustments reflect the reversal of stock-based compensation expense of \$949,000 and \$460,000, respectively, in cost of revenues – support and service, \$2.4 million and \$1.3 million, respectively, in sales and marketing, \$1.3 million and \$651,000, respectively, in research and development and \$2.6 million and \$996,000, respectively, in general and administrative.

- (3) For the nine months ended September 30, 2007, adjustments reflects the reversal of \$4.7 million in expenses incurred in connection with the Company's completed voluntary review of historical stock option grant procedures and related accounting and the reversal of \$758,000 in expenses incurred associated with the Company's new corporate headquarters while in the process of completing tenant improvements.
- (4) For the nine months ended September 30, 2008 and 2007, adjustments reflect an increase of \$14,000 and a reversal of \$65,000, respectively, in adjustments associated with the Company's restructuring and excess facilities accrual.
- (5) For the nine months ended September 30, 2007, adjustment reflects the reversal of recoveries from amounts of \$472,000 held in escrow related to the settlement of certain claims associated with the acquisition of Scrittura, Inc.
- (6) For the nine months ended September 30, 2008 and 2007, adjustments reflect an additional hypothetical tax provision of \$10.3 million and \$7.3 million, respectively, associated with the non-GAAP adjustments.