

INTERWOVEN, INC.
Reconciliation of Non-GAAP Adjustments

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

	<u>Three Months Ended</u> <u>December 31,</u>		<u>Year Ended</u> <u>December 31,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Gross profit:				
GAAP gross profit	\$ 51,560	\$ 46,238	\$ 188,258	\$ 162,568
Adjustments:				
Amortization of purchased technology (1)	690	936	4,302	4,365
Stock-based compensation (2)	<u>397</u>	<u>223</u>	<u>1,346</u>	<u>683</u>
Gross profit adjustments	<u>1,087</u>	<u>1,159</u>	<u>5,648</u>	<u>5,048</u>
Non-GAAP gross margin	<u>\$ 52,647</u>	<u>\$ 47,397</u>	<u>\$ 193,906</u>	<u>\$ 167,616</u>
Income from operations:				
GAAP income from operations	\$ 11,318	\$ 4,806	\$ 31,437	\$ 13,923
Adjustments:				
Amortization of purchased technology (1)	690	936	4,302	4,365
Stock-based compensation (2)	2,836	1,644	10,106	5,075
Other non-GAAP charges (3)	-	1,931	-	7,391
Amortization of intangible assets (4)	736	759	2,806	3,229
Restructuring and excess facilities charges (5)	<u>24</u>	<u>83</u>	<u>38</u>	<u>148</u>
Income from operations adjustments	<u>4,286</u>	<u>5,353</u>	<u>17,252</u>	<u>20,208</u>
Non-GAAP income from operations	<u>\$ 15,604</u>	<u>\$ 10,159</u>	<u>\$ 48,689</u>	<u>\$ 34,131</u>
Net income:				
GAAP net income	\$ 10,709	\$ 10,684	\$ 32,047	\$ 23,678
Adjustments:				
Amortization of purchased technology (1)	690	936	4,302	4,365
Stock-based compensation (2)	2,836	1,644	10,106	5,075
Other non-GAAP charges (3)	-	1,931	-	7,391
Amortization of intangible assets (4)	736	759	2,806	3,229
Restructuring and excess facilities charges (5)	24	83	38	148
Reversal of recoveries of escrow amounts (6)	-	-	-	(472)
Tax impact in above items (7)	<u>(4,229)</u>	<u>(7,816)</u>	<u>(14,516)</u>	<u>(15,081)</u>
Net income adjustments	<u>57</u>	<u>(2,463)</u>	<u>2,736</u>	<u>4,655</u>
Non-GAAP net income	<u>\$ 10,766</u>	<u>\$ 8,221</u>	<u>\$ 34,783</u>	<u>\$ 28,333</u>
Diluted net income per share:				
GAAP diluted net income per common share	<u>\$ 0.23</u>	<u>\$ 0.23</u>	<u>\$ 0.69</u>	<u>\$ 0.51</u>
Non-GAAP net income per common share	<u>\$ 0.23</u>	<u>\$ 0.18</u>	<u>\$ 0.74</u>	<u>\$ 0.61</u>
Shares used in computing diluted GAAP and non-GAAP net income per common share	<u>47,004</u>	<u>46,477</u>	<u>46,783</u>	<u>46,524</u>

The financial measures identified as “non-GAAP” in the tables above are financial measures that are not prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), and include non-GAAP net income, non-GAAP net income per share and other non-GAAP line items from the Consolidated Statements of Income adjusted for the items discussed below. Because these items do not reflect all of the amounts associated with the Company’s results of operations as determined in accordance with GAAP and are not based on a comprehensive set of accounting rules or principles, these non-GAAP financial measures are incomplete and should only be used to evaluate the Company’s results of operations in conjunction with the corresponding GAAP measures. Accordingly, readers are advised to review and consider carefully the financial information prepared in accordance with GAAP contained in this press release and Interwoven’s periodic filings with the Securities and Exchange Commission.

We believe the presentation of these non-GAAP financial measures, when taken together with the corresponding financial measures presented in accordance with GAAP, provides useful supplemental information regarding the Company’s operating performance for the reasons discussed below. The Company’s management uses these non-GAAP financial measures in assessing the Company’s operating results, as well as when planning, forecasting and analyzing future periods or determining incentive compensation. We believe that these non-GAAP financial measures also facilitate comparisons of the Company’s performance to prior periods and that investors benefit from an understanding of these non-GAAP financial measures and how specific, identified amounts impact different line items in our consolidated statements of income.

(1) Amortization of purchased technology. In connection with business combinations, we are required to allocate a portion of the purchase price to the accounting value assigned to the technology acquired and amortize this amount over the estimated useful lives associated therewith. Typically, the acquired business has itself previously expensed the costs incurred to develop the purchased technology, and the purchase price allocated to these intangible assets is not necessarily reflective of the cost we would incur in developing them. We eliminate these recurring amortization charges from our non-GAAP operating results to provide better comparability of pre- and post-business combination operating results and because they may facilitate comparability of our operating results with those of other companies using internally developed intangible assets.

(2) Stock-based compensation expense. Stock-based compensation expense consists of expenses for equity compensation awards determined in accordance with Statement of Financial Accounting Standard No. 123R (“SFAS 123R”), *Share-Based Payment*. We exclude stock-based compensation expense from our non-GAAP financial measures primarily because this expense is non-cash in nature and not reflective of our ongoing operating results. When evaluating the performance of our business and developing short- and long-term plans, we do not consider stock-based compensation expense. Our management team is held accountable for cash-based compensation, but we believe that management is limited in its ability to project the impact of stock-based compensation and, accordingly, is not held accountable for its impact on our consolidated operating results. Although stock-based compensation is necessary to attract and retain quality employees, our consideration of stock-based compensation places its primary emphasis on overall shareholder dilution rather than the accounting charges associated with such awards. In addition, we believe it is useful to provide a non-GAAP financial measure that excludes stock-based compensation in order to better understand the long-term performance of our core business from period to period and may facilitate comparability of our operating results with those of other companies. Further, unlike cash compensation, the value of stock-based compensation is determined using a complex formula that incorporates factors, such as market volatility, that are beyond our control. In addition, we believe it is useful to investors to understand the impact of SFAS 123R on our results of operations. The following table summarizes stock-based compensation expense for the three months and year ended December 31, 2008 and 2007, respectively (in thousands, unaudited):

Three Months Ended
December 31,

Year Ended
December 31,

	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Cost of revenues – support and service	\$ 397	\$ 223	\$ 1,346	\$ 683
Sales and marketing	1,180	608	3,616	1,933
Research and development	566	331	1,853	982
General and administrative	<u>693</u>	<u>482</u>	<u>3,291</u>	<u>1,477</u>
Total stock-based compensation	<u>\$ 2,836</u>	<u>\$ 1,644</u>	<u>\$ 10,106</u>	<u>\$ 5,075</u>

(3) Other non-GAAP adjustments. These adjustments consist of expenses incurred in connection with the Company's completed voluntary review of historical stock option grant procedures and related accounting and \$758,000 of expenses incurred during the first six months of 2007 associated with the Company's new corporate headquarters while the facility was unoccupied and we were in the process of completing tenant improvements. The expenses associated with the voluntary review of historical stock option grant procedures and related accounting were excluded because we did not consider such expenses to be closely related to, or a function of, the ongoing operations of our business, and because of the extraordinary circumstances that caused us to incur these expenses. We excluded the expenses incurred in anticipation of our headquarters relocation because they were incurred prior to the occupation of our new headquarters and, as a result, caused our lease expenses over the period such expenses were incurred to be larger than would be incurred on an ongoing basis following completion of our headquarters relocation. We believe that investors benefit from an understanding of our operating results for the periods presented without giving effect to these expenses.

(4) Amortization of intangible assets. In connection with business combinations, we are required to allocate a portion of the purchase price to the accounting value assigned to the identified intangible assets acquired and amortize these amounts over the estimated useful lives of the acquired intangible assets. The purchase price allocated to these intangible assets and the amortization expense associated therewith have no direct correlation to the operation of our business. Consistent with the reasons discussed in footnote 1 above, we eliminate these recurring amortization charges from our non-GAAP operating results to provide better comparability of pre- and post-business combination operating results and because they have no direct correlation to the operation of our business.

(5) Restructuring and excess facilities. At various times from 2001 to 2006 and in connection with business combinations, we implemented restructuring and facility consolidation plans to improve operating performance. Restructuring and excess facilities consist of estimated expenses associated with workforce reductions, the consolidation of excess facilities and the impairment of leasehold improvements and other equipment associated with abandoned facilities. Recoveries of charges may occur from time to time to the extent we re-evaluate our restructuring and excess facilities accrual and determine that our costs are less than previously estimated. Each restructuring has been a discrete event based on a unique set of business objectives or circumstances, and each has differed from the others in terms of its operational implementation, business impact and scope. We do not engage in restructuring activities in the ordinary course of business. While we believe it is important to understand these charges, we do not believe that these charges are indicative of our future operating results and that investors benefit from an understanding of our operating results without giving effect to these charges.

(6) Reversal of recoveries of escrow amounts. During the first quarter of 2007, we recovered \$472,000 held in escrow related to the settlement of certain claims associated with the acquisition of Scrittura, Inc. We exclude the impact of this settlement because we do not consider the underlying claims to be closely related to, or a function of, the ongoing operations of our business, and because of the singular nature of these claims.

(7) Income tax effect on above items. This amount adjusts the provision for income taxes to reflect the effect of each of the non-GAAP adjustments described above on non-GAAP net income. We exclude the income tax effect of the non-GAAP adjustments from net income to assist investors in understanding the tax provision associated with these adjustments.