

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended November 29, 2019

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 0-15175

ADobe INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

77-0019522

(I.R.S. Employer Identification No.)

345 Park Avenue, San Jose, California 95110-2704

(Address of principal executive offices)

(408) 536-6000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, \$0.0001 par value per share	ADBE	NASDAQ

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company
filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the registrant's common stock, \$0.0001 par value per share, held by non-affiliates of the registrant on May 31, 2019, the last business day of the registrant's most recently completed second fiscal quarter, was \$102.25 billion (based on the closing sales price of the registrant's common stock on that date). Shares of the registrant's common stock held by each officer and director and each person who owns 5% or more of the outstanding common stock of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. As of January 10, 2020, 482,130,975 shares of the registrant's common stock, \$0.0001 par value per share, were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the registrant's 2020 Annual Meeting of Stockholders (the "Proxy Statement"), to be filed within 120 days of the end of the fiscal year ended November 29, 2019, are incorporated by reference in Part III hereof. Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as part hereof.

**ADOBE INC.
FORM 10-K**

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Forward-Looking Statements

In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements, including statements regarding product plans, future growth, market opportunities, strategic initiatives, industry positioning, customer acquisition and retention, the amount of annualized recurring revenue and revenue growth. In addition, when used in this report, the words “will,” “expects,” “could,” “would,” “may,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “targets,” “estimates,” “looks for,” “looks to,” “continues” and similar expressions, as well as statements regarding our focus for the future, are generally intended to identify forward-looking statements. Each of the forward-looking statements we make in this report involves risks and uncertainties that could cause actual results to differ materially from these forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in the section entitled “Risk Factors” in Part I, Item 1A of this report. You should carefully review the risks described herein and in other documents we file from time to time with the U.S. Securities and Exchange Commission (the “SEC”), including our Quarterly Reports on Form 10-Q to be filed in 2020. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances after the date of this document, except as required by law.

PART I

ITEM 1. BUSINESS

Founded in 1982, Adobe Inc. is one of the largest and most diversified software companies in the world. We offer a line of products and services used by creative professionals, marketers, knowledge workers, students, application developers, enterprises and consumers for creating, managing, delivering, measuring, optimizing, engaging and transacting with compelling content and experiences across personal computers, devices and media. We market our products and services directly to enterprise customers through our sales force and local field offices. We license our products to end users through app stores and our own website at www.adobe.com. We offer many of our products via a Software-as-a-Service (“SaaS”) model or a managed services model (both of which are referred to as hosted or cloud-based) as well as through term subscription and pay-per-use models. We also distribute certain products and services through a network of distributors, value-added resellers (“VARs”), systems integrators (“SIs”), independent software vendors (“ISVs”), retailers, software developers and original equipment manufacturers (“OEMs”). In addition, we license our technology to hardware manufacturers, software developers and service providers for use in their products and solutions. Our products run on personal and server-based computers, as well as on smartphones, tablets and other devices, depending on the product. We have operations in the Americas, Europe, Middle East and Africa (“EMEA”), and Asia-Pacific (“APAC”).

Adobe was originally incorporated in California in October 1983 and was reincorporated in Delaware in May 1997. Our executive offices and principal facilities are located at 345 Park Avenue, San Jose, California 95110-2704. Our telephone number is 408-536-6000 and our website is www.adobe.com. Investors can obtain copies of our SEC filings from this site free of charge, as well as from the SEC website at www.sec.gov. The information posted to our website is not incorporated into this Annual Report on Form 10-K.

BUSINESS OVERVIEW

For over 35 years, Adobe’s innovations have transformed how individuals, teams, businesses and governments engage and interact with their constituents in print and online. We help our customers create and deliver the most compelling experiences in a streamlined workflow and optimize those experiences for greater return on investment. Our solutions turn ordinary interactions into valuable digital experiences, across media and devices, anytime, anywhere.

While we continue to offer a broad portfolio of products, services and solutions, we focus our investments in two strategic growth areas:

Digital Media – providing products, services and solutions that enable individuals, teams and enterprises to create, publish and promote their content anywhere. Our customers include creative professionals like photographers, video editors, graphic and experience designers, and application and game developers; communicators like content creators, students, marketers and knowledge workers who create, collaborate on and distribute documents and creative content; and consumers. This is the core of what we have delivered for decades, and we have evolved our business model to provide our customers with a range of flexible solutions that allow them to reach their full creative potential anytime, anywhere, on any device on projects of all types.

Digital Experience – providing a comprehensive and integrated platform and set of applications and services through Adobe Experience Cloud that enables businesses and brands to create, manage, execute, measure, monetize and optimize customer

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experiences that span from advertising to commerce. Our customers include marketers, advertisers, agencies, publishers, merchandisers, merchants, web analysts, data scientists, developers, marketing executives, information management and technology executives, product development executives and sales and support executives. Underpinning Adobe Experience Cloud is our Adobe Experience Platform, which provides businesses and brands with an open and extensible platform for customer experience management with real-time customer profiles that enable deep customer insights and the delivery of personalized digital experiences in milliseconds. By combining the creativity of our Digital Media business with the science of our Digital Experience offerings, we help our customers more efficiently and effectively make, manage, measure and monetize their content across channels and devices with an end-to-end workflow and feedback loop.

We believe we are uniquely positioned to be a leader in both the Digital Media and Digital Experience markets, where our mission is to change the world through digital experiences. By integrating products from each of these areas, our customers are able to utilize a comprehensive suite of solutions and services that no other company currently offers. In addition, our ability to deliver innovation and productivity improvements across customer workflows involving the creation, management, delivery, measurement and optimization of engaging content favorably positions Adobe as our customers continue to invest in delivering digital experiences.

SEGMENTS

Our business is organized into three reportable segments: Digital Media, Digital Experience and Publishing. These segments provide Adobe's senior management with a comprehensive financial view of our key businesses. Our segments are aligned around our two strategic growth opportunities described above, placing our Publishing business in a third segment that contains some of our mature products and solutions.

MARKET OVERVIEW

This overview provides an explanation of our markets and a discussion of strategic opportunities in fiscal 2020 and beyond for each of our segments. See “*Results of Operations*” within *Part II, Item 7* titled “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and Note 2 of *Part II, Item 8* titled “*Notes to Consolidated Financial Statements*” for further segment information.

Digital Media

Digital Media Opportunity

Recent technology trends in digital communications continue to provide a significant market opportunity for Adobe in digital media. Everyone has a story to tell — from creative professionals, to students and knowledge workers, to immersive content and experience designers — and they need to tell those stories on an ever-increasing number of canvasses. In today’s world where the velocity of creation and consumption of digital content is constantly growing, design and creativity have never been more relevant and customers are looking for a way to meet demand with engaging online experiences. Adobe is in a strong position to capitalize on this opportunity with innovation that will accelerate the creative process across all platforms and devices, deepen engagement with communities and accelerate long-term revenue growth by focusing on cloud-based offerings, which are licensed on a subscription basis.

The flagship of our Digital Media business is Adobe Creative Cloud — a subscription service that allows members to use Adobe’s creative products integrated with cloud-delivered services across desktop, web and mobile devices. Creative Cloud members can download and access the latest versions of our creative products such as Photoshop, Illustrator, Premiere Pro, Lightroom, InDesign, Adobe XD and many more creative applications. To expand our reach and improve the way we serve the needs of our customers, we create different combinations of these services, including our applications with free and paid tiers such as Adobe Lightroom Mobile that have brought new customers into our franchise and increased our footprint on mobile devices. In addition, members can access built-in templates and presets created by the Adobe user community to jumpstart designs and step-by-step interactive tutorials to sharpen their skills and get up to speed quickly. Through Creative Cloud, members can access online services to sync, store and share files across users’ devices, access marketplace, social and community-based features within our Adobe Stock and Behance services, and create apps and websites, all at affordable subscription pricing.

Adobe continues to redefine the creative process with Adobe Creative Cloud so that our customers can obtain everything they need to create, collaborate and be inspired. One part of our strategy is Adobe Sensei, a proprietary framework and set of intelligent services for dramatically improving the design and delivery of digital experiences. Adobe Sensei leverages Adobe’s massive content and data assets, as well as its deep domain expertise in the creative, marketing and document segments, within a unified artificial intelligence (“AI”) and machine learning framework to help customers discover hidden opportunities, reduce tedious processes and offer relevant experiences to every customer.

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Adobe Creative Cloud addresses the needs of creative professionals such as artists, designers, developers, students and administrators, as well as knowledge workers, marketers, educators, hobbyists and consumers, who also use our products to create and deliver content. Our customers rely on our products for content creation, design, video and animation production, mobile app and gaming development and document creation and collaboration. End users of our creative products work in businesses of all sizes ranging from large publishers, media companies and global enterprises, to smaller design agencies and individual freelancers. Moreover, our creative products are used to create much of the printed and online information people see, read and interact with every day, including video, animation, mobile and advertising content. We have introduced new products, features and services to address emerging categories of content creation across devices and platforms, such as voice-based prototyping, refined content creation tools, 3D, augmented reality, virtual reality and user experience design. New projects announced and solutions offered include: Substance, a suite of applications for creating, mixing and applying textures and materials for 3D creations; Adobe Fresco, a mobile drawing and painting application, featuring live brushes that mimic natural media like oil paint and watercolors in amazingly lifelike ways; Adobe Aero, a free iOS application for viewing, building and sharing immersive and interactive augmented reality experiences; Photoshop Camera, an AI-driven mobile camera application launching in 2020 powered by Adobe Sensei featuring unique Photoshop lenses and camera effects right inside the camera; and both Illustrator on iPad, which will be available in 2020, and Photoshop on iPad to enable a seamless content creation experience across devices and attract a new, mobile-centric audience.

Adobe's Digital Media segment includes our Adobe Document Cloud business, built around our Acrobat family of products, including Adobe Acrobat and Adobe Acrobat Reader, and a set of integrated, cloud-based document services, including Adobe Sign and Adobe Scan. Tens of millions of knowledge workers worldwide interact with documents daily. Across industries and across the world, business processes from contracting to invoicing to employee onboarding are making the change from paper to electronic documents. Cloud services and mobile devices are reshaping how we work in ways that are more ad hoc, collaborative, unstructured and on the go. For over 25 years, Acrobat has provided for the reliable creation and exchange of electronic documents, regardless of platform or application source type. Users can collaborate on documents with electronic comments and tailor the security of a file in order to distribute reliable Adobe PDF documents that can be viewed, printed or filled out utilizing our free Acrobat Reader on any device. Acrobat provides essential electronic document capabilities and services across desktop, mobile devices and the web to help knowledge workers accomplish a wide variety of tasks ranging from simple publications and forms to mission-critical engineering documentation and architectural plans. With our Acrobat product and its innovative cloud services, we have extended the capabilities of our document solutions, from view and create, to edit, secure, scan, review, embed, share and sign. Users can create a PDF with just the camera on their phone with Adobe Scan, edit PDFs on the go with Acrobat on iOS and Android, and turn slow, manual signing processes into automated experiences and collect signatures with Adobe Sign.

Digital Media Strategy

Our goal is to be the leading platform for creativity where we offer a range of products and services that allow individuals, teams and enterprises, and both professionals and enthusiasts, to design and deliver amazing digital content.

We believe there is significant opportunity for growth across all customer segments and expect Adobe Creative Cloud will drive sustained long-term revenue growth through a continued expansion of our customer base by using our products to enable everyone to create and tell their stories, expanding into new categories and technologies like immersive 3D and augmented reality, making the creative process more productive with cloud-enabled collaboration and workflows, delivering intelligent, time-saving features with Adobe Sensei's artificial intelligence and machine learning capabilities, and acquiring new users by engaging with the creative community.

We will continue to deepen our relationship with existing users through meeting their needs holistically and delivering additional features and increased value, including through data-driven customer engagement, AI and machine learning through Adobe Sensei, and offering a true "multi-surface platform" that provides our customers with the ability to use our tools for creation wherever inspiration strikes, by enabling them to seamlessly access their assets in the cloud and work across mobile, tablet and desktop with new applications like Adobe Fresco and Photoshop for iPad. We are embracing new frontiers in technology and creativity such as immersive 3D and augmented reality ("AR") experiences with Adobe Aero and our Substance suite of products. We are pursuing new ways to help our customers develop creative skills such as allowing creators to live-stream their creative process on Behance and allowing users to learn with step-by-step, in-app, interactive tutorials from experienced creators.

As appropriate, we plan to optimize our pricing strategy and move our customers to higher priced and better value offerings and continue to employ targeted promotions that attract past customers and potential users to try out and ultimately subscribe to Adobe Creative Cloud. To target new customers and better address the needs of our existing customers, we will continue to invest in driving innovation to maintain the leadership position that we have established. We offer a marketplace for Creative Cloud subscribers to enable the delivery and purchase of stock content in our Adobe Stock service. Overall, our strategy with Creative Cloud is designed to enable us to increase our revenue with users, attract more new customers and grow a recurring and predictable revenue stream that is recognized ratably.

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As part of our Adobe Creative Cloud strategy, we utilize a data-driven operating model and our Adobe Experience Cloud solutions to drive and optimize customer awareness, engagement and licensing of our creative products and services at every stop of the customer journey through our website and across other channels. Adobe.com is increasingly becoming the destination site where we engage individual and small business customers to sign up for and renew Creative Cloud subscriptions. We offer free apps and trials to attract new customers and through a data-driven model, we optimize conversion of these trialists to paid subscribers. We utilize channel partners to target mid-size creative customers with our Creative Cloud for teams offering. Our direct sales force is focused on building relationships with our largest customers and driving adoption of our Creative Cloud for enterprise offering.

We offer many of the products included in Adobe Creative Cloud on a standalone basis, including subscriptions to the Creative Cloud version of certain point products. We also offer a range of other creative tools and services, including our hobbyist products such as Photoshop Elements and Premiere Elements, Adobe Fonts and mobile apps such as Photoshop Express, Photoshop Sketch, Adobe Capture, Premiere Rush and Adobe Spark. Further descriptions of our Digital Media products are included below under “Principal Products and Services.”

In our Adobe Document Cloud business, Adobe Acrobat has achieved strong market adoption and a leadership position in document-intensive industries such as government, financial services, pharmaceutical, legal, aerospace, insurance and technical publishing. Trillions of PDF documents are created every year and we believe there remain hundreds of millions of users in industries that engage with PDF files on a daily basis like legal, financial services or publishing, as well as a broader array of communicators, knowledge workers and Acrobat Reader users, who need the capabilities provided by our Acrobat applications and the document services platform found in Document Cloud. We expect to drive sustained long-term revenue growth in Adobe Document Cloud through a continued expansion of our customer base by delivering the best PDF experience on every platform and across platforms, expanding the number of actions and features in Acrobat, using Adobe Sensei to make both new and legacy documents more intelligent and responsive, and investing in embedded document services such as integrating Adobe Sign in third-party applications. As with our Adobe Creative Cloud strategy, we utilize a data-driven operating model to market our Document Cloud solutions to and optimize our subscription-based pricing for individuals as well as small and medium-sized businesses, large enterprises and government institutions around the world. We aim to increase our seat penetration in our key markets through the utilization of our corporate and volume licensing programs. We also intend to increase our focus on marketing and licensing Acrobat in targeted vertical markets such as education, financial services, telecommunications and government, as well as on expanding into emerging markets. We will continue to engage in strategic partnerships to help drive the enterprise business, including our partnership with Microsoft.

Our Document Cloud customers increasingly expect business processes to be seamless across desktop, web and mobile devices. Acrobat on mobile devices can be used to create, edit, export, combine, collaborate on and share PDFs on the go and the Adobe Scan app for mobile devices can be used to capture paper documents as images and transform them into full-featured PDFs via Document Cloud services that can be shared immediately, essentially putting scanning capabilities in the pocket of every person. We are delivering PDF document services on the web, such as allowing users to create, convert and compress PDFs on Adobe.com. Our Adobe Sign service also provides a green alternative to costly paper-based solutions, and is a more modern and convenient way for customers to digitally manage their documents, processes and contract workflows. We believe that by growing the awareness of electronic signatures in the broader contract delivery and signing market, utilizing Adobe Sensei to enhance customer experiences through machine learning and AI, and continuing to add new capabilities to our Adobe Scan and Adobe Sign offerings, we can help our customers migrate away from paper-based express mailing and adopt our solution to modernize and digitize document experiences, growing our revenue with this business in the process.

Digital Experience

Digital Experience Opportunity

Digital transformation is a macro trend that affects every business, government and educational institution today - making every business a digital business. Consumers today buy experiences, not just products, and they demand compelling experiences in their digital interactions that are seamless across channels and devices. Enterprises and brands recognize that customers have more choices and lower switching costs than ever before. In this new hyper-connected digital environment, it is the customer experience that differentiates brands and ultimately determines customer loyalty. As a result, businesses must determine how to best attract, engage, acquire and retain customers in a digital world where the reach and quality of experiences directly impact success. Business customers are consumers too, and they increasingly have the same expectations, which are driving business-to-business (“B2B”) companies to deliver business-to-consumer (“B2C”) experiences with a “business-to-everyone” (“B2E”) strategy. Delivering the best experience to a consumer at a given moment requires the right combination of data, insights and content across multiple channels in real time. To deliver these multi-channel experiences that are personalized to every customer, executives are increasingly demanding solutions that optimize their consumers’ experiences in real time and deliver the greatest return on marketing and IT spend so they can demonstrate the business impact of their programs using objective metrics.

For the past decade, Adobe Experience Cloud has helped businesses provide exceptional experiences to their customers via a comprehensive suite of solutions. We believe there is now a significant opportunity to address these challenges of customer experience management and help our customers transform their businesses into “Experience Businesses.” The world’s leading brands are increasingly steering their marketing, advertising and development budgets toward digital experiences. As enterprises make this move to digital, our opportunity is accelerating as brands seek vendors to help them navigate this transition. Enterprises have a mandate to deliver meaningful experiences to their consumers across digital channels and in areas such as sales, support and product interactions where consumers expect experiences to be consistent and personalized.

Our Adobe Experience Cloud business targets this large and growing opportunity to help companies deliver the most engaging customer experiences by providing an integrated, comprehensive set of solutions for customer experience management. Together, our applications, services and platforms provide real-time data and insights, deliver content and personalization, enable customer journey management and provide platforms for commerce and advertising management. Our solutions address analytics, targeting, advertising optimization, digital experience management, marketing automation and engagement, cross-channel campaign management, content management, creative asset management, audience management, digital commerce enablement, order management, predictive intelligence and monetization. Collectively, these comprehensive solutions enable marketers to measure, personalize and optimize digital experiences across all channels and touch points to drive stronger business performance throughout the customer journey.

We believe the market for Adobe Experience Cloud is large and rapidly growing as more businesses and enterprises invest in solutions that aid their goals to transform how they engage with their customers and constituents digitally.

Digital Experience Strategy

Our goal is to be the leading provider of cloud-based solutions for delivering digital experiences and enabling digital transformation. The Adobe Experience Cloud applications, services and platform are designed to manage customer journeys, enable shoppable experiences and deliver intelligence for businesses of any size in any industry. Our differentiation and competitive advantage is strengthened by our ability to use the Adobe Experience Platform to connect our comprehensive set of solutions.

Adobe Experience Cloud delivers the following sets of solutions for our customers:

- *Data and insights.* Our solutions deliver real-time customer profiles and intelligence across the customer journey. Adobe Analytics provides an experience system of intelligence for real-time cross-channel data, insights and activations across every channel. Adobe Audience Manager, our data management platform, helps digital publishers build unique audience profiles to identify the most valuable segments and use them across any digital channel. Adobe Experience Platform ingests, processes and stitches data across sources, channels and customer interactions in real time to create unified customer profiles. Adobe’s Real-time Customer Data Platform service, built on Adobe Experience Platform, enables brands to bring together known and unknown customer data, to activate customer profiles across channels and leverage intelligent decision-making throughout the customer journey. Our Customer Journey Analytics service brings a powerful set of analytics tools to omnichannel data in Adobe Experience Platform, providing brands viewing data across channels an easy, interactive way to dig deeper and uncover new insights, while making analytics more accessible across their organization.
- *Content and commerce.* We offer solutions to help customers manage, deliver, test, target and optimize content delivery and enable shopping experiences that scale from mid-market to enterprise businesses. Our leading digital experience management solution, Adobe Experience Manager, helps customers organize, create, manage and deliver creative assets and other content across digital marketing channels, including web, mobile, email, communities and video, enabling customers to improve their market and brand perception and provide a personalized experience to their consumers. Adobe Target is a personalization engine that lets our customers test, target and optimize content using machine learning across multiple apps and the web. Magento Commerce, which integrates with Adobe Experience Manager, enables our customers to create content and promotions for storefronts on every platform and provides a highly customizable and scalable end-to-end platform to manage, personalize and optimize the commerce experience across every touchpoint by bringing together digital commerce, order management and predictive intelligence to enable engaging shopping experiences.
- *Customer journey management.* Our solutions help businesses manage, personalize and orchestrate campaigns and customer journeys across B2E use cases. Adobe Campaign enables marketers to manage the B2C customer journey and use rich customer data to create, coordinate and deliver dynamic, personalized experiences that are synchronized across multiple channels and determined by each consumer’s behaviors and preferences. Marketo Engage is a complete customer experience management solution optimized for B2B, cross-channel campaigns requiring lead management, account-based marketing and revenue attribution technology by bringing together planning, engagement and measurement capabilities into an integrated marketing platform. Our Journey Orchestration service, built on Adobe

Experience Platform, enables businesses to design, orchestrate and measure event-driven, customer-led journeys across the entire customer lifecycle at the individual level to intelligently anticipate every individual's needs across their personal journey.

- *Advertising.* Adobe Advertising Cloud delivers an end-to-end platform for managing advertising across traditional TV and digital formats, and simplifies the delivery of video, display and search advertising across channels and screens. Adobe Sensei enables machine learning and predictive intelligence and helps automate digital media buying to traditional TV advertising as well as ad creation. Adobe Advertising Cloud integrates with Adobe Creative Cloud products and combines capabilities from the Adobe Advertising Cloud Demand-Side Platform, Adobe Advertising Cloud Search, Adobe Advertising Cloud TV and Adobe Advertising Cloud Creative offerings.

We believe the AI and machine learning framework enabled by our strategy with Adobe Sensei enhances the delivery of digital experiences. Adobe Experience Cloud offers domain-specific AI services powered by Adobe Sensei that work with Adobe Experience Platform to augment existing Experience Cloud product offerings. These AI services help provide domain-specific intelligence in areas such as attribution and automated insights, customer journey management, lead management, sentiment analysis, one-click personalization, enhanced anomaly detection and more. By building on existing features and these AI-powered services, we believe Adobe Sensei will increase the value we provide our customers and create a competitive differentiation in the market.

Adobe Experience Cloud also offers an open platform and ecosystem through its multi-cloud foundation, the Adobe Experience Platform, AI services powered by Adobe Sensei, and developer services through Adobe I/O. Adobe Experience Platform standardizes data into an easily sharable format consumable by Adobe Sensei and provides an open and extensible cloud infrastructure for Adobe Experience Cloud that allows data to flow freely within the Adobe Experience Platform and between Adobe Experience Cloud solutions and third-party software. This open architecture offers scalability with a wide variety of supporting products and services, empowers users to quickly develop innovative applications to interact with consumers, and enables a broad industry ecosystem through our Open Data Initiative, an open alliance among Adobe, Microsoft, SAP and others.

To drive growth of Adobe Experience Cloud, we are focused on delivering the best customer experience management solutions for B2E, enterprise and mid-market through our applications, services and platform. We also intend to focus on customer engagement, growing within existing customer accounts, and product differentiation. We are expanding our customers to include Chief Information Officers and continuing to invest in Adobe Experience Platform integrations with Adobe Analytics and Adobe Audience Manager, as well as new services such as Customer Journey Analytics and our Real-time Customer Data Platform, to create a truly comprehensive customer data and insights offering. To give our customers increased flexibility and expand our reach, we are also delivering new functionality through additional services delivered on the Adobe Experience Platform such as Journey Orchestration. We utilize a direct sales force to market and license our Experience Cloud solutions, as well as an extensive ecosystem of partners, including marketing agencies, SIs and ISVs that help license and deploy our solutions to their customers. Strategic partnerships, such as the one we have formed with Microsoft, continue to increase our market reach. We have made significant investments to broaden the scale and size of all of these routes to market and believe these investments will result in continued growth in revenue in our Digital Experience segment in fiscal 2020 and beyond.

Publishing

Our Publishing segment contains legacy products and services that address diverse market opportunities including eLearning solutions, technical document publishing, web conferencing, document and forms platform, web application development and high-end printing. Graphics professionals and professional publishers continue to require quality, reliability and efficiency in production printing, and our Adobe PostScript and Adobe PDF printing technologies provide advanced functionality to meet the sophisticated requirements of this marketplace. As high-end printing systems evolve and transition to fully digital, composite workflows, we believe we are well positioned to be a supplier of software and technology based on the Adobe PostScript and Adobe PDF standards for use by this industry.

We generate revenue by licensing our technology to OEMs that manufacture workflow software, printers and other output devices. In fiscal 2019, we maintained a relatively consistent annual revenue run-rate with the mature products we market and license in our Publishing business.

COMPETITION

The markets for our products and services are characterized by intense competition, new industry standards, evolving distribution models, disruptive technology developments, frequent product introductions, short product life cycles, price cutting with resulting downward pressure on gross margins and price sensitivity on the part of consumers. Our future success will depend on our ability to enhance and better integrate our existing products, introduce new products on a timely and cost-effective basis, meet changing customer needs, provide best-in-class information security to build customer confidence and combat cyber-attacks, extend our core technology into new applications and anticipate emerging standards, business models, software delivery methods and other technological changes.

Digital Media

No single company has offerings that match the capabilities of our Adobe Creative Cloud products and services, but we face collective competition from a variety of point offerings, free products and downloadable apps. Our competition includes offerings from companies such as Apple, Autodesk, Avid, Corel, Microsoft, Affinity and others, as well as from many lower-end offerings. We believe our greatest advantage in this space is the performance and scope of our integrated solutions, which work together as part of Creative Cloud. With Creative Cloud, we compete favorably on the basis of features and functionality, ease of use, product reliability, value and performance characteristics.

Professional digital imaging, drawing and illustration products are characterized by feature-rich competition, brand awareness and price sensitivity. Competition in this space is also emerging with drawing and illustration applications on tablet and smartphone platforms. The demand for professional web page layout and professional web content creation tools is constantly evolving and highly volatile. In this area, we face direct and indirect competition from desktop software companies and various proprietary and open source web-authoring tools.

We face competition from device, hardware and camera manufacturers as they try to differentiate their offerings by bundling, for free, their own digital imaging software or those of our competitors. Similarly, we face potential competition from operating system manufacturers as they integrate or offer hobbyist-level digital imaging and image management features with their operating systems. We also face competition from smartphone and tablet manufacturers that integrate imaging and video software into their devices to work with cameras that come as part of their smartphone and tablet offerings. In addition, social networking platforms such as Facebook (including Instagram), Snapchat, Twitter, TikTok and Pinterest, as well as portal sites such as Google and Bing are becoming a direct means to post, edit and share digital media, bypassing the step of using image editing and sharing software. Online storage and synchronization are becoming free and ubiquitous. Consumers will be encouraged to use the image and video editing software offered by those storage products, thus competing with our software.

In addition, the needs of digital imaging and video editing software users are constantly evolving due to rapid technology and hardware advancements in digital cameras, digital video cameras, printers, personal computers, tablets, smartphones and other new devices. Our imaging and video offerings, including Photoshop, Lightroom, After Effects, Premiere Pro and Premiere Rush, face competition from established and emerging companies offering similar products.

New image editing applications for mobile devices and tablets with features that compete with our professional tools are also emerging as adoption of these devices grows. Our consumer digital imaging and video editing offerings are subject to intense competition, including customer price sensitivity and competitor brand awareness. We face direct and indirect competition in the consumer digital imaging space from a number of companies whose market software competes with our offerings.

Applications and tools for experience and interface design and prototyping are still emerging and evolving as adoption of these tools by designers, design teams and larger organizations grows. Competitors to Adobe XD include Figma, Invision and Sketch. Partnerships and integrations between these companies and third parties create an increasingly competitive landscape in this space.

The universe of applications for 3D texturing and material authoring as well as other applications and tools in the areas of 3D, augmented reality and immersive design are still developing and advancing as adoption grows and new use cases emerge. Adobe's Substance suite of applications and Adobe Aero face competition from both hardware and software players in these nascent fields and competitors include Autodesk, Foundry, Quixel and Unity.

The stock content marketplace has significant competition, especially in the microstock segment, where Adobe primarily operates today with our Adobe Stock offering. Key competitors in this segment include Shutterstock, Getty Images and a number of smaller companies. Deep product integration with Adobe Creative Cloud and superior reach and relationships with creative professionals around the world differentiate our Adobe Stock offerings.

The nature of traditional digital document creation, storage, collaboration and signing has been rapidly evolving as knowledge workers and consumers shift their behavior increasingly to non-desktop workflows. Competitors like Microsoft, Google, Box, Dropbox and DocuSign all offer competitive alternatives to our Adobe Document Cloud business for creating and managing PDFs and e-signatures. In addition, other PDF creation solutions can be found at a low cost or for free on the web or via mobile applications. To address these competitive threats, we are working to ensure our Document Cloud applications stay at the forefront of innovation in emerging opportunities such as PDF document generation, document collaboration and document security, document workflow management, easeful software integrations, enablement of paper to digital transformations, and accessibility and usability on multiple devices, including mobile and desktop.

Digital Experience

The markets in which our Digital Experience business unit competes are growing rapidly and characterized by intense competition. Our Adobe Experience Cloud solutions face competition from large companies such as Google, Oracle, salesforce.com, SAP, SAS, Shopify, Sitecore and others, in addition to point product solutions and focused competitors. Additionally, new competitors are constantly entering these markets. Some of these competitors provide SaaS solutions to customers, generally through a web browser, while others provide software that is installed by customers directly on their servers. In addition, we compete at times with our customers' or potential customers' internally developed applications. Of the competitors listed above, no single company has products identical in breadth and depth to our Adobe Experience Cloud offerings. Adobe Experience Cloud competes in a variety of areas, including: reporting and analytics; cross-channel marketing and optimization; online marketing; audience management; advertising and real-time bidding technology; marketing automation; customer data platforms; digital commerce enablement; order management; web experience management; customer experience management and others.

Large software, internet and database management companies have expanded their offerings in the digital experience area, either by developing competing services or by acquiring existing competitors or strategic partners of ours. We believe competitive factors in our markets include the proven performance, security, scalability, flexibility and reliability of services; the strategic relationships and integration with third-party applications; the intuitiveness and visual appeal of user interfaces; demonstrable cost-effective benefits to customers; pricing; the flexibility of services to match changing business demands; enterprise-level customer service and training; perceived market leadership; the usability of services; real-time data and reporting; independence from portals and search engines; the ability to deploy the services globally; and success in educating customers in how to utilize services effectively. We believe we compete favorably with both the enterprise and low-cost alternatives based on many of these competitive factors including our strong feature set, the breadth of our offerings, our focus on global, multi-brand companies, our superior user experience, tools for building multi-screen, cross-channel applications, standards-based architecture, scalability and performance and leadership in industry standards efforts.

Creative and digital agencies, as well as SIs, are increasingly investing in acquiring their own digital experience technology to complement their creative services offerings. Adobe may face competition from these agencies and SIs as they come to market with best-of-breed offerings in one or more digital experience capabilities, or if agencies attempt to create a more complete technology platform offering. We believe our creative tools heritage differentiates us from our competitors. We have worked closely with marketing and creative customers for over 30 years. We also believe we have leadership in this space, with current customers representing leading global brands. Our comprehensive solutions extend more broadly than any other company in serving the needs of marketers and addressing this market opportunity; we integrate content and data, analytics, personalization, digital experience management, marketing automation, cross-channel campaign management, digital commerce, audience management and customer intelligence in our Adobe Experience Cloud. Most importantly, we provide a vision for our Digital Experience customers as we engage with them across the important aspects of their business, extending from their use of Adobe Creative Cloud and Adobe Document Cloud to how they manage, deliver, measure and monetize their content, participate in digital commerce, and create highly personalized and engaging shoppable experiences with our Experience Cloud.

Publishing

Our Publishing product offerings face competition from large-scale publishing systems, XML-based publishing companies, as well as lower-end desktop publishing products. Similarly, our web conferencing product faces competition from a number of established products from other companies, including Cisco, Citrix and Microsoft. Competition involves a number of factors, including: product features, ease-of-use, printer service support, the level of customization and integration with other publishing system components, the number of hardware platforms supported, service and price. We believe we can successfully compete based upon the quality and features of our products, our strong brand among users, the widespread adoption of our products among printer service bureaus, and our extensive application programming interfaces.

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In printing technologies, we believe the principal competitive factors for OEMs in selecting a page description language or a printing technology are product capabilities, market leadership, reliability, price, support and engineering development assistance. We believe that our competitive advantages include our technology competency, OEM customer relationships and our intellectual property portfolio.

PRINCIPAL PRODUCTS AND SERVICES

Digital Media Offerings

Creative Cloud

Adobe Creative Cloud is a cloud-based subscription offering that enables creative professionals and enthusiasts alike to express themselves with apps and services for video, design, photography and the web that connect across devices, platforms and geographies. Members have access to a vibrant creative community, publishing services to deliver apps and websites, cloud storage to easily access their work, the ability to sync their files to virtually any device, collaboration capabilities with team members, and new products and exclusive updates as they are developed. Creative Cloud members can build a Creative Profile which persists wherever they are. A user's Creative Profile moves with them via Creative Cloud services from app to app and device to device, giving them immediate access to their personal files, photos, brushes, graphics, colors, fonts, text styles, desktop setting customizations and other important assets. All of the applications listed below and many more are available through subscriptions to Creative Cloud.

Adobe Photoshop and Adobe Lightroom

Adobe Photoshop is the world's most advanced digital imaging and design app. It is used by photographers, designers, animators, web professionals and video professionals, and is available to Adobe Creative Cloud subscribers on both desktop and iPad. Lightroom, our cloud-based photo service for editing, organizing, storing and sharing photos, is also available to Creative Cloud subscribers on desktop, tablet and mobile devices. Customers can also subscribe to Photoshop or Lightroom as individual cloud-enabled subscription products, or through our Photography Plan, which is a cloud-enabled offering targeted at photographers and photo hobbyists and includes Photoshop, Lightroom, integrated cloud services, and Lightroom Classic, a desktop-only version of the photo service app.

We also offer Photoshop Elements, which is targeted at consumers who desire the brand and power of Photoshop through an easy-to-use interface. For tablet and smartphone users, we offer several mobile apps including Photoshop Sketch, Photoshop Mix, Photoshop Express and Photoshop Fix – all of which enable sophisticated photo editing and content creation using a touch-based interface on tablet and mobile devices.

Adobe Illustrator

Adobe Illustrator is our industry-standard vector graphics app used worldwide by designers of all types who want to create digital graphics and illustrations from web icons and product packaging to book illustrations and billboards, and for all kinds of media: print, web, interactive, video and mobile. Illustrator is available to Adobe Creative Cloud subscribers, and customers can also subscribe to use it as an individual subscription product. Users can also utilize mobile apps such as Illustrator Draw to gain access to Illustrator capabilities on their tablets and mobile devices, and seamlessly sync their work across apps and devices through Adobe CreativeSync technology, including for use with Illustrator on their desktop. Illustrator will also be available on iPad starting in 2020.

Adobe Fresco

Adobe Fresco (formerly Project Gemini) is an illustration app designed for the latest stylus and touch devices that brings together the world's largest collection of vector and raster brushes, plus revolutionary new Live Brushes, to deliver a completely natural painting and drawing experience for artists, illustrators, animators, sketchers and anyone who wants to discover - or rediscover - the joy of drawing and painting. Live Brushes, powered by Adobe Sensei, look, feel and act just like real watercolors that bloom and bleed in real time or oil that can be swirled and smudged on canvas. Tight integration with Adobe Creative Cloud enables customers to start their projects on tablet devices and move seamlessly to desktop, with all files, brushes, fonts and assets synced across devices through Adobe Creative Cloud. A free version of Adobe Fresco is available and a premium version is offered as part of Adobe Creative Cloud, as part of an Adobe Photoshop subscription plan, or as a standalone subscription for individuals, teams, education or enterprises. Adobe Fresco is available for iPad, Microsoft Surface computers and Wacom Mobile Studio devices.

Adobe InDesign

Adobe InDesign is the industry-leading design and layout app for print and digital media. Our customers use it to create, preflight and publish a broad range of content including newspapers and magazines for print, online and tablet app delivery. From

stationery, fliers and posters to brochures, annual reports, magazines and books with professional layout and typesetting tools, customers can create multicolumn pages that feature stylish typography and rich graphics, images and tables. Tight integration with other Adobe offerings such as Photoshop, Illustrator and Acrobat enables customers to work productively in print and digital workflows. InDesign integrates seamlessly with Adobe InCopy, so customers can work on layouts simultaneously with writers and editors. Customers can also access Adobe digital publishing capabilities from within InDesign to create and publish engaging apps for a broad range of devices, including iOS, Android and Amazon-based devices. InDesign is available to Adobe Creative Cloud subscribers, and customers can also subscribe to use InDesign as an individual cloud-enabled subscription product.

Adobe Stock

Adobe Stock provides designers and businesses with access to millions of high-quality, curated, royalty-free photos, vectors, illustrations, videos, templates and 3D assets, for all their creative projects. Adobe Stock is built into Adobe Creative Cloud apps, including Photoshop, Illustrator and InDesign, enabling users to search, browse, and add images to their Creative Cloud Libraries, and obtain instant access to assets across desktop and mobile devices. Adobe Stock assets may be licensed directly within the Creative Cloud desktop apps, through stock.adobe.com or as a multi-asset subscription.

Adobe XD

Adobe XD is our all-in-one experience design (XD) solution used to build user experiences (UX) and user interfaces (UI) when designing websites, mobile apps and more; Adobe XD enables users to go from concept to prototype faster. Adobe XD brings design and prototyping together with fast, intuitive tools that deliver precision and performance using timesaving features like Responsive Resize, Repeat Grid, Auto-Animate and flexible artboards to create everything from low-fidelity wireframes to fully interactive prototypes for any size screen in minutes. Adobe XD also makes it easy to, with a single click, share and collaborate on designs and prototypes with teammates and allow multiple colleagues on multiple devices to simultaneously make changes to the same document in real time, with support for version control. Adobe XD offers prototyping capabilities that no other design tools offer by allowing designers to design, prototype and share digital experiences that extend beyond the screen, including keyboard and gamepad triggers for desktop and console-based experiences, and voice prototyping to create audio interactions for voice-based smart assistants and other similar platforms. Adobe XD also enables users to share and reuse assets with design systems that can scale as teams and organizations grow. Adobe XD is available to Adobe Creative Cloud subscribers, and individuals and teams can also subscribe to use it as an individual cloud-enabled subscription product. A free version is also available.

Adobe Premiere Pro and Adobe Premiere Rush

Adobe Premiere Pro is a leading nonlinear video editing tool used by filmmakers, TV editors, YouTubers and videographers. Customers can import and combine various types of media, from video shot on a smartphone to 8K to virtual reality, and then edit in its native format without transcoding. Premiere Pro supports a vast majority of formats, and customers can use multiple graphics cards to accelerate, render and export times. Premiere Pro is the only nonlinear editor that lets users have multiple projects open while simultaneously collaborating on a single project with their team. Automated tools powered by Adobe Sensei like Auto-Reframe save time and workflows for color, graphics, audio and immersive 360/VR in Premiere Pro take customers from first edit to final credits faster than ever. Adobe Premiere Rush (formerly Project Rush) is an all-in-one, easy-to-use video editing app that simplifies video creation and sharing on platforms including YouTube, Instagram and TikTok, while delivering professional quality video results. Premiere Rush is uniquely positioned toward social media marketers, video bloggers and video enthusiasts who are looking for an all-in-one app to create and directly share online videos. Premiere Pro and Premiere Rush tightly integrate with other Adobe creative applications and are available to Adobe Creative Cloud subscribers, and customers can also subscribe to use Premiere Pro and Premiere Rush as individual cloud-enabled subscription products, or they can download the free Premiere Rush starter plan.

Adobe After Effects

Adobe After Effects is our industry-standard motion graphics and visual effects app used by a wide variety of animators, designers and compositors to create cinematic movie titles, remove objects from videos, apply countless effects and create animations. It offers superior control, a wealth of creative options and integration with other post-production applications. After Effects works together seamlessly with other Adobe apps such as Premiere Pro, Photoshop, Illustrator, Adobe XD and Adobe Audition. After Effects is available to Adobe Creative Cloud subscribers, and customers can also subscribe to use it as an individual cloud-enabled subscription product.

Adobe Dimension

Adobe Dimension is designed to make it easy for graphic designers to compose, adjust and render high-quality, photorealistic 3D images. Users can composite 2D and 3D assets to create product shots, craft photorealistic scenes and visualize branding, packaging and logo designs in 3D with photorealistic renderings. Dimension integrates well with other Adobe apps. Users can

drag and drop background images from Photoshop, geometry from Substance Painter and 3D models from Adobe Stock - without leaving Dimension. Dimension is available to Adobe Creative Cloud subscribers, and customers can also subscribe to use it as an individual cloud-enabled subscription product.

Adobe Aero

Adobe Aero (formerly Project Aero) is our free iOS application for viewing, building and sharing immersive and interactive augmented reality experiences. Users can directly import 2D and 3D assets created in Adobe applications like Adobe Photoshop, Adobe Illustrator, Adobe Dimension and Substance by Adobe, as well as third-party applications like Cinema4D, and bring them to life with animations and interactive triggers. Adobe Aero automatically optimizes these assets for augmented reality and uses machine learning technology to mimic real-world lighting on objects without the need for complex models or time-consuming manual rendering. Adobe Aero is available for free on the iOS App Store.

Substance by Adobe

On January 23, 2019, Adobe acquired Allegorithmic, a privately held 3D editing and authoring software company for gaming and entertainment, and began integrating it into Adobe Creative Cloud as Substance by Adobe. Substance by Adobe is a suite of tools, comprised of Substance Painter, Substance Source, Substance Alchemist and Substance Designer, for 3D texturing and materials authoring that enables users to get all the details just right in their 3D creations. Substance Painter allows users to nondestructively paint 3D textures on models in real time with smart materials that adjust to any object to show realistic wear and tear. Substance Source is a 3D materials library from which users can import professional quality 3D textures into their projects and generate infinite texture variations. Substance Alchemist allows users to create collections of 3D textures and materials, mix and tweak existing materials and even create new materials from the real world using photographs and high-resolution scans. Substance Designer is the industry standard texture authoring tool for precisely creating custom materials with complete nondestructive authoring control. Substance integrates well with other Adobe apps like Dimension, as well as game engines like Epic Games' Unreal Engine 4, Unity, Autodesk's Maya and 3ds Max and more. Customers can also subscribe to use Substance as an individual subscription product.

Adobe Fonts

Adobe Fonts brings thousands of fonts from foundry partners into one library for quick browsing, easy use on the web or on the user's desktop and endless typographic inspiration. Our full library of commercially-licensed fonts is offered through Adobe Creative Cloud. In addition, customers may subscribe to the standalone Adobe Fonts portfolio plan, or license individual fonts from the Adobe Fonts Marketplace.

Behance

Behance is the leading social community to showcase and discover creative work online. Adobe Portfolio allows users to quickly and simply build a fully customizable and hosted website that seamlessly syncs with Behance.

Adobe Spark

Adobe Spark is our integrated web and mobile software for creating and sharing impactful visual stories. Designed for everyday communication, Adobe Spark empowers users to transform text, photos and videos into dynamic web stories, video stories or professional-looking graphics for social media that engage audiences across multiple channels and on any device. The Adobe Spark web app seamlessly syncs with the Spark Post, Spark Page and Spark Video iOS mobile apps (with Spark Post also available as an Android app), allowing users to create, edit and share their story from any location regardless of their design experience. Adobe Spark with premium features allows users to apply custom branding to anything they create; the premium product is offered as part of any Adobe Creative Cloud plan or as a standalone subscription for individuals, teams, education or enterprises. A free version is also available.

Acrobat and Adobe Document Cloud

Adobe Document Cloud is a cloud-based subscription offering that enables complete, reliable and automated digital document and signature workflows across desktop, mobile, web and third-party enterprise applications to drive business productivity for individuals, teams, small businesses and enterprises. With Document Cloud, users can create, review, approve, sign and track documents, and store them in Document Cloud for easy access and sharing, whether on a desktop or mobile device. Document Cloud includes Adobe Acrobat DC, Adobe Sign, Adobe Scan and other Document Cloud apps and services that work standalone or integrate with users' existing productivity apps, processes and systems.

At the heart of Adobe Document Cloud is Adobe Acrobat DC, the industry standard for PDF creation and conversion. Acrobat enables users to create secure, reliable and compact Adobe PDF documents from authoring applications such as Microsoft

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Office software, graphics applications and more. Acrobat enables automated collaborative workflows with a rich set of commenting tools and review tracking features and includes everything needed to create and distribute rich, secure electronic documents that can be viewed easily within leading web browsers or on computer desktops via the free Adobe Acrobat Reader.

Adobe Acrobat is available to both Adobe Creative Cloud and Adobe Document Cloud subscribers. Customers can also license Acrobat Pro DC or Acrobat Standard DC (which has a subset of Acrobat Pro DC features) as individual point products available through a cloud-enabled subscription. Adobe Acrobat Reader, our free software for reliable viewing, annotating and printing of Adobe PDF documents on a variety of desktop and mobile platforms, offers additional features for subscribers to Adobe Document Cloud or Adobe Acrobat DC that enables subscribers to create, edit, export, combine, share and collaborate on PDF documents on mobile devices. Users of both Acrobat and Acrobat Reader can also access, edit and save changes to their PDF files stored in the Adobe Document Cloud, or other third-party cloud storage services, including Box, Dropbox, Google Drive and Microsoft OneDrive.

Adobe Scan can be used for free on mobile devices to provide scanning capabilities in the pocket of every person. It captures paper documents as images and transforms them into full-featured and versatile PDFs via Adobe Document Cloud services for instant sharing with others.

Our Adobe Sign cloud-based e-signature service allows users to securely electronically send and sign any document from any device. As well as being available on the web, Adobe Sign has a mobile app that allows users to e-sign documents and forms, send them for signature, track responses in real time and obtain instant signatures with in-person signing. Adobe Sign also integrates with users' enterprise systems through a comprehensive set of applicable programming interfaces, and Adobe Experience Manager Forms and Advanced Workflows for Adobe Sign, to create forms and provide seamless experiences to customers across web and mobile sites. Adobe Sign is Microsoft's preferred e-sign solution and is integrated into Microsoft Office 365, Microsoft Dynamics 365 and Microsoft SharePoint.

Digital Experience Offerings

Adobe Experience Cloud is a comprehensive collection of best-in-class solutions for advertising, analytics, marketing and commerce, all integrated on a cloud platform, along with service, support and an open ecosystem. Experience Cloud is comprised of the following sets of solutions for our customers: Data and Insights, Content and Commerce, Customer Journey Management and Advertising, which are each described below.

Data and Insights

Our Data and Insights solutions deliver real-time customer profiles and intelligence across the customer journey with a unified, purpose-built platform for customer experience management, a data management platform and cross-channel analytics. The following is a brief description of our solutions for Data and Insights.

Adobe Experience Platform

Adobe Experience Platform is the industry's first purpose-built platform for customer experience management that helps users ingest, process and stitch together known and unknown customer data from every customer interaction across multiple channels in real time into unified customer profiles. Adobe Experience Platform standardizes data into an easily sharable format consumable by Adobe Sensei and provides an open and extensible cloud infrastructure which allows that data to flow freely within the Adobe Experience Platform and between Adobe applications and services and third-party software. This open architecture offers scalability with a wide variety of supporting products and services, empowers users to quickly develop innovative applications to interact with consumers and enables a broad industry ecosystem through our Open Data Initiative, an open alliance among Adobe, Microsoft and SAP. Adobe Experience Platform also offers Query Service and Data Science Workspace, which enable users to gain deeper insights from stored datasets, and customer journey intelligence, which leverages predefined data-driven operational best practices, AI and business intelligence to enable and optimize real-time decisions, actions and business processes. Users are able to leverage Adobe Experience Platform to activate insights across all Adobe Experience Cloud applications.

Adobe Analytics

Adobe Analytics is our industry leading solution that helps our customers create a holistic view of their business by turning consumer interactions into actionable insights. Adobe Analytics enables web, social, video, mobile, attribution and predictive analytics to continuously improve the performance of marketing activities and better direct our customers' marketing spend. From attribution and predictive modeling to contribution analysis and propensity scoring, Adobe Analytics is immersed in machine learning and AI. With intuitive and interactive dashboards and reports, our customers can sift, sort and share real-time information to provide insights that can be used to identify problems and opportunities and to drive conversion and relevant consumer experiences. Our Analysis Workspace provides a robust, flexible canvas for creating and curating reusable analysis projects that

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are customized to their needs. Adobe Analytics lets users capture, analyze and integrate data from virtually any source, both online and offline, from web, email and CRM to voice, IoT and connected car data.

Adobe Audience Manager

Adobe Audience Manager is a data management platform that helps digital publishers build unique audience profiles to identify the most valuable segments and use them across any digital channel. Adobe Audience Manager consolidates audience information from all available sources. It then identifies, quantifies and optimizes high-value target audiences, which can then be offered to advertisers via an integrated, secure, privacy-friendly management system that works across all advertising distribution platforms. Adobe Audience Manager provides access to multiple data sources, offering digital publishers the ability to use a wide variety of third-party data as well as Audience Manager's private data co-op.

Customer Journey Analytics

Our Customer Journey Analytics service, built on Adobe Experience Platform, brings a powerful set of analytics tools that stitch and analyze cross-channel data to deliver comprehensive customer journey insights that allow our customers to more easily deliver consistent experiences regardless of channel. This service provides brands viewing data across channels with an easy, interactive way to dig deeper and uncover new insights with omnichannel data analysis, while making analytics more accessible across their organization. The Customer Journey Analytics interface democratizes data analysis by allowing users to creatively and intelligently visualize their customer data and gather collections of insights for different audiences in real time by manipulating layers of data.

Real-Time Customer Data Platform

Our Real-time Customer Data Platform, built on Adobe Experience Platform, uses customer data to instantly personalize experiences. It does so by activating Adobe Experience Platform's unified customer profiles across channels to leverage intelligent decision making throughout the customer journey and deliver hyper-personalized experiences across all known channels and devices. The Real-time Customer Data Platform utilizes an open and extensible architecture that allows integration with a variety of data sources and activation touchpoints and provides continuous data refreshes to keep customer profiles updated in real time.

Content and Commerce

Our Content and Commerce solutions help customers manage, deliver, test, target and optimize content delivery and enable shopping experiences that scale from mid-market to enterprise businesses. The following is a brief description of our solutions for Content and Commerce.

Adobe Experience Manager

Adobe Experience Manager is a leading digital experience management solution that uses AI tools to help customers organize, create and manage the delivery of creative assets and other content across digital marketing channels, including web, mobile, email, communities and video. It enables customers to manage content on premise or host it in the cloud, delivering agile and rapid deployment. With this ultimate control of content and campaigns, our customers can deliver real-time and personalized experiences to their consumers that help build customers' brands, drive demand and extend reach. Adobe Experience Manager includes digital asset management, web content management, digital publishing and enterprise-level forms management. These tools enable customers to improve their market and brand perception and provide a personalized experience to their consumers.

Adobe Target

Adobe Target is a personalization engine that lets our customers test, target and optimize content using machine learning across multiple apps and the web. With Adobe Target, our customers have the tools they need to quickly discover what gets noticed and what increases conversion and engagement. It paves a path from simple testing to targeting to true segmentation and optimization through A/B and multivariate testing, AI-powered automation at scale, content targeting and automated decision making. Adobe Target capabilities also enable our customers to test and target adaptive or responsive mobile web experiences.

Magento Commerce

Magento Commerce offers digital commerce enablement and order orchestration for both physical and digital goods across a range of industries, including consumer packaged goods, retail, wholesale, manufacturing and the public sector. Magento Commerce brings together digital commerce, order management and predictive intelligence to enable shopping experiences that scale from mid-market to enterprise businesses. Based on an open-source ecosystem, Magento Commerce extends beyond the web shopping cart to every shoppable experience, including email, mobile, in-store and marketplaces. Magento Commerce also

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integrates with Adobe Experience Manager to enable the user-friendly creation and deployment of content and promotions for shopping experiences that integrate seamlessly across mobile, social or in-store.

Customer Journey Management

Our Customer Journey Management solutions enable our customers to manage and orchestrate individual cross-channel campaigns that encourage meaningful customer experiences; personalize content and deliver optimized experiences at scale that are meaningful to each of their customers; and plan, orchestrate and measure engagement with their prospects and customers at every stage of the customer journey, across B2E use cases. The following is a brief description of our solutions for Customer Journey Management.

Adobe Campaign

Adobe Campaign is optimized for B2C experiences involving high volume email and cross-channel campaign management. Adobe Campaign enables marketers to manage the customer journey and use rich customer data to create, coordinate and deliver dynamic, personalized experiences that are synchronized across multiple channels and determined by each consumer's behaviors and preferences. As part of its feature set, Adobe Campaign provides visual campaign orchestration, allowing for intuitive design and automated consumer experiences across channels, from one-off campaigns to triggered messages, with a graphically rich interface. Marketers can also integrate consumer data from across marketing channels to develop and deliver more relevant marketing experiences to their consumers through email, mobile, offline channels and more. Features also include targeted segmentation, multilingual email execution, real-time interaction, in-app messaging and operational reporting to easily see how well campaigns are performing.

Marketo Engage

Marketo Engage is a complete customer experience management solution optimized for B2B, cross-channel campaigns requiring lead management, account-based marketing and revenue attribution technology by bringing together planning, engagement and measurement capabilities into an integrated marketing platform. Marketo Engage simplifies how companies plan, orchestrate and measure engagement with prospects and customers at every stage of their experience and allows companies to better align marketing and sales at every touchpoint to engage high priority accounts. It offers a feature-rich and cloud-native platform with a set of solutions for delivering transformative customer experiences across industries and companies of all sizes.

Journey Orchestration

Our Journey Orchestration service, built on Adobe Experience Platform, enables businesses to design, orchestrate and measure event-driven, customer-led journeys across the entire customer lifecycle at the individual level to intelligently anticipate every individual's needs across their personal journey. It allows businesses to trigger individual journeys, apply conditions in real time to qualify events and personalize journeys, as well as visually map individual journeys across all systems in an intuitive workflow-based interface. Journey Orchestration also allows businesses to track detailed performance of executed journeys and how individuals are progressing in real time, with data automatically sent to Adobe Experience Platform to allow full-funnel analysis.

Advertising

Adobe Advertising Cloud is an end-to-end, independent platform for managing advertising that unifies and automates all media, screens, data and creativity at scale. With Adobe Advertising Cloud and its use of Adobe Sensei AI and data integrations, customers can identify and amplify their high-value audiences for more personal and accurate targeting; seamlessly unite creative, data and media buying across all screens and formats; protect their brand by preventing their campaigns from mixing with content and properties that do not align with their image; scale bidding and optimization strategies; implement programmatic creative management using automated advertisement creation for both prospecting and retargeting customers; generate advertisements at scale using Adobe Creative Cloud apps; and use data insights that reveal customers' interests and past behaviors to create relevant, targeted ads. Adobe Advertising Cloud includes Adobe Advertising Cloud Demand Side Platform, Adobe Advertising Cloud Search, Adobe Advertising Cloud TV and Adobe Advertising Cloud Creative offerings.

Adobe Advertising Cloud DSP is the first independent, omnichannel demand-side platform that brings cross-screen and cross-channel integrations for planning, buying, measurement and optimization and supports all forms of TV (linear, addressable and connected), video, display, native, audio, social and search campaigns. It builds identities, finds optimal mixes to reach audiences and manages tactics that span multiple sites simultaneously, effortlessly and nearly instantly. Adobe Advertising Cloud Search brings customers the most comprehensive search management through the automation of search, shopping and retargeting campaigns by offering model transparency and accuracy reports that give insight into actual performance rather than just forecasts for clicks, cost and revenue. With intuitive navigation and time-saving workflows, it delivers powerful, real-time integration with

Adobe Analytics, Adobe Audience Manager and Adobe Campaign and connects users' data, audience segments and other marketing channels to get a bird's-eye view of their performance. Adobe Advertising Cloud TV uses data and automation to help customers make smarter TV buying decisions, deliver precision against their audiences and increase the impact of their TV advertising with access to over 30,000 audience data attributes. As part of the Adobe Advertising Cloud DSP, Adobe Advertising Cloud Creative uniquely brings together designers and marketing professionals in a self-serve, intuitive interface with direct integration with Adobe Creative Cloud apps that enhances collaboration between customers' ad production and media teams and enables users to automatically create thousands of ads at scale.

Other Products and Services

We also offer a broad range of other enterprise and digital media products and services. Information about other products not referenced here can be found on our corporate website, www.adobe.com.

OPERATIONS

Marketing and Sales

We market and license our products directly using our sales force and certain local offices and through our own website at www.adobe.com. We also market and distribute our products through sales channels, which include distributors, retailers, software developers, SIs, ISVs and VARs, as well as through OEM and hardware bundle customers.

Our local field offices include locations in Australia, Belgium, Brazil, Canada, China, Denmark, France, Germany, Hong Kong, India, Ireland, Israel, Italy, Japan, Mexico, Moldova, the Netherlands, Poland, Romania, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan, the United Kingdom and the United States.

We sell the majority of our products through a software subscription model where our customers purchase access to a product for a specific period of time during which they always have rights to use the most recent version of that product. We also license perpetual versions of our software with maintenance and support, which includes rights to upgrades, when and if available, support, updates and enhancements.

For fiscal 2019, 2018 and 2017, there were no customers that represented at least 10% of net revenue. As of fiscal year end 2019 and 2018, no single customer was responsible for over 10% of our trade receivables.

Services and Support

We provide expert consulting, customer success management, technical support and learning services across all our customer segments, including enterprises, small and medium businesses, creative professionals and consumers. With a focus on ensuring sustained customer success and realized value, this comprehensive portfolio of services is designed to help customers and partners maximize the return on their investments in our cloud solutions and licensed products. Our service and support revenue consists primarily of consulting fees, software maintenance, technical support fees and training fees.

Consulting Services

We have a global professional services team dedicated to designing and implementing solutions for our largest customers. Our professional services team uses a comprehensive, customer-focused methodology that has been refined over years of capturing and analyzing best practices from numerous customer engagements across a diverse mix of solutions, industries and customer segments. Increasingly, our customers seek to integrate across Adobe's products and cloud solutions, and engage our professional services teams to share their expertise in leading customers' digital strategies, multi-solution integrations and in running customer platforms. Using our methodology, our professional services teams are able to accelerate customers' time to value, and maximize the return customers earn on their investment in Adobe solutions.

A key component of Adobe's strategy is developing a large partner ecosystem to expand the reach and breadth of Adobe solutions in the global marketplace. In order to assist partners in building their respective digital practices, Adobe Global Services provides a comprehensive set of deliverables through Adobe's Solution Partner Program. The breadth of services described in the program provides system integrators, agencies and regional partners the tools required to develop core capabilities for positioning and building with Adobe technology, as well as implementing and running customer platforms. We believe that through these programmatic services and support, our joint customers benefit greatly from the combination of Adobe technology and the deep customer context that our global partners represent.

Customer Success Account Management

Adobe Customer Solutions provides Customer Success Managers, who work with enterprise and commercial customers on an ongoing basis to understand their current and future business needs, promote faster solution adoption, and align product capabilities to customers' business objectives to maximize the return on their investment in Adobe's offerings. We engage customers to share innovative best practices, relevant industry and vertical knowledge, and proven success strategies based on our extensive engagements with leading marketers and brands. The performance of these teams is directly associated with customer-focused outcomes.

Technical Support

Adobe provides enterprise maintenance and support services to customers of subscription products as part of the subscription entitlement, and to perpetual license customers via annual fee-based maintenance and support programs. These offerings provide:

- technical support on the products they have purchased from Adobe;
- "how to" help in using our products; and
- product upgrades and enhancements during the term of the maintenance and support or subscription period, which is typically one to three years.

We provide product support through a global support organization that includes several regional and global support centers, supplemented with outsourced vendors for specific services. Customers can seek help through multiple channels including phone, chat, web, social media and email, allowing quick and easy access to the information they need. These teams are responsible for providing timely, high-quality technical expertise on all our products.

Certain consumers are eligible to receive Getting Started support, to assist with easy adoption of their products. Support for some products and in some countries may vary. For enterprise customers with greater support needs, we offer personalized service options through Premium Services options, delivered by global support centers and technical account managers who can also provide proactive risk mitigation services and on-site support services for those with business-critical deployments.

Lastly, we also offer delivery assurance, technical support and enablement services to partners and developer organizations. Through the Adobe Partner Connection Reseller Program, we provide developers with high-quality tools, software development kits, information and services.

Digital Learning Services

Adobe Customer Solutions offers a comprehensive portfolio of learning and enablement services to assist our customer and partner teams in the use of our products, including those within Digital Experience, Digital Media and other legacy products and solutions. Our training portfolio includes a large number of free online self-service learning options on www.training.adobe.com. Adobe Digital Learning Services also has an extensive portfolio of fee-based learning programs including a wide range of traditional classroom, virtual and on-demand training and certifications delivered by our team of training professionals and partners across the globe.

These core offerings are complemented by our custom learning services, which support our largest enterprise customers and their unique requirements. Solution-specific skills assessments help our enterprise customers objectively assess the knowledge and competencies within their marketing teams and tailor their learning priorities accordingly. Finally, aligned with our cloud strategy, we have introduced a new learning subscription service that enables customers to access both business and technical Digital Experience training over a 12-month period, which is a scalable approach to supporting long-term learning.

Investments

From time to time we make direct investments in privately held companies. We enter into these investments with the intent of securing financial returns as well as for strategic purposes, as they often increase our knowledge of emerging markets and technologies and expand our opportunities to provide Adobe products and services.

PRODUCT DEVELOPMENT

A continuous high level of investment is required for the enhancement of existing solutions and the development of new solutions due to the speed of technological change that characterizes the software industry. We develop our software internally, as well as acquire products or technology developed by others by purchasing the stock or assets of the business entity that owns the technology. In other instances, we have licensed or purchased the intellectual property ownership rights of programs developed by others with license or technology transfer agreements that may obligate us to pay a flat license fee or royalties, typically based on a dollar amount per unit or a percentage of the revenue generated by those programs.

PROTECTING AND LICENSING OUR PRODUCTS

We protect our intellectual property through a combination of patents, copyrights, trademarks and trade secrets, foreign intellectual property laws, confidentiality procedures and contractual provisions. We have United States and foreign patents and pending applications that relate to various aspects of our products and technology. Although our patents have value, no single patent is essential to any of our principal businesses. We have also registered, and applied for the registration of, U.S. and international trademarks, service marks, domain names and copyrights.

Our enterprise customers license our hosted offerings as SaaS or Managed Services, and consumers primarily use our desktop software and mobile apps. We license our desktop software to users under ‘click through’ or signed license agreements containing restrictions on duplication, disclosure and transfer. Similarly, cloud products and services are provided to users under ‘click through’ or signed agreements containing restrictions on access and use.

Despite our efforts to protect our proprietary technology and our intellectual property rights, unauthorized parties may attempt to copy or obtain and use our technology to develop applications with the same functionality as our application. Policing unauthorized use of our technology and intellectual property rights is difficult. We believe that our transition from perpetual-use software licenses to a subscription-based business model combined with the increased focus on cloud-based computing has and may continue to improve our efforts to combat the pirating of our products.

EMPLOYEES

As of November 29, 2019, we employed 22,634 people. We have not experienced work stoppages and believe our employee relations are good.

AVAILABLE INFORMATION

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on our Investor Relations website at www.adobe.com/adbe as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information posted on our website is not incorporated into this report.

EXECUTIVE OFFICERS

Adobe’s executive officers as of January 21, 2020 are as follows:

Name	Age	Positions
Shantanu Narayen	56	Chairman, President and Chief Executive Officer

Mr. Narayen currently serves as our Chairman of the Board, President and Chief Executive Officer. He joined Adobe in January 1998 as Vice President and General Manager of our engineering technology group. In January 1999, he was promoted to Senior Vice President, Worldwide Products, and in March 2001 he was promoted to Executive Vice President, Worldwide Product Marketing and Development. In January 2005, Mr. Narayen was promoted to President and Chief Operating Officer, and effective December 2007, he was appointed our Chief Executive Officer and joined our Board of Directors. In January 2017, he was named our Chairman of the Board. Mr. Narayen serves as lead independent director on the board of directors of Pfizer, a multinational pharmaceutical corporation. Mr. Narayen holds a B.S. in Electronics Engineering from Osmania University in India, a M.S. in Computer Science from Bowling Green State University and an M.B.A. from the Haas School of Business, University of California, Berkeley.

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Name	Age	Positions
John Murphy	51	Executive Vice President and Chief Financial Officer Mr. Murphy currently serves as our Executive Vice President and Chief Financial Officer. He joined Adobe in March 2017 and served as our Senior Vice President, Chief Accounting Officer and Corporate Controller until April 2018. Prior to joining Adobe, Mr. Murphy served as Senior Vice President, Chief Accounting Officer and Corporate Controller of Qualcomm Incorporated from September 2014 to March 2017. He previously served as Senior Vice President, Controller and Chief Accounting Officer of DIRECTV Inc. from November 2007 until August 2014, and Vice President and General Auditor of DIRECTV from October 2004 to November 2007. Prior to joining DIRECTV he worked at several global companies, including Experian, Nestle, and Atlantic Richfield (ARCO), in a variety of finance and accounting roles. He served as Director of DirecTV Holdings LLC from November 2007 until August 2014. Mr. Murphy serves on the Corporate Advisory Board of the Marshall School of Business at the University of Southern California. He holds an MBA from the Marshall School of Business at the University of Southern California, a B.S. in Accounting from Fordham University.
Scott Belsky	39	Chief Product Officer and Executive Vice President, Creative Cloud Mr. Belsky joined Adobe in December 2017 as Chief Product Officer and Executive Vice President, Creative Cloud. Prior to joining Adobe in December 2017, Belsky was a venture investor at Benchmark in San Francisco from February 2016 to December 2017. Prior to Benchmark, Belsky led Adobe's mobile strategy for Creative Cloud from December 2012 to January 2016, having joined the company through the acquisition of Behance. Belsky co-founded Behance in 2006 and served as its CEO for over 6 years. He is an early advisor and investor to Pinterest, Uber and Warby Parker among other early-stage companies, and co-founded and serves on the board of Prefer, a referrals platform that empowers the careers of independent professionals. Mr. Belsky also serves on the advisory board of Cornell University's Entrepreneurship Program and as President of the Smithsonian Cooper-Hewitt National Design Museum board of trustees.
Anil Chakravarthy	52	Executive Vice President and General Manager, Digital Experience Mr. Chakravarthy joined Adobe in January 2020 as Executive Vice President and General Manager, Digital Experience. Prior to joining Adobe, he served as Informatica's Chief Executive Officer from August 2015 to January 2020 and Executive Vice President and Chief Product Officer from September 2013 to August 2015. Prior to joining Informatica, for over nine years, Mr. Chakravarthy held multiple leadership roles at Symantec Corporation, most recently serving as its Executive Vice President, Information Security from February 2013 to September 2013. Prior to Symantec, he was a Director of Product Management for enterprise security services at VeriSign. Mr. Chakravarthy began his career as an engagement manager at McKinsey & Company. Mr. Chakravarthy holds a Bachelor of Technology in Computer Science and Engineering from the Institute of Technology, Varanasi, India and Master of Science and Ph.D. degrees from the Massachusetts Institute of Technology.
Gloria Chen	55	Executive Vice President, Strategy and Growth Ms. Chen joined Adobe in 1997 and currently serves as Executive Vice President, Strategy and Growth. In her more than 20 years at Adobe, she has held senior leadership positions in worldwide sales operations, customer service and support, and strategic planning. In October 2009, Ms. Chen was appointed Vice President and Chief of Staff to the Chief Executive Officer. In March 2018, she was promoted to Senior Vice President, Strategy and Growth and in November 2019, she was elevated to Executive Vice President, Strategy and Growth. Prior to joining Adobe, Ms. Chen was an engagement manager at McKinsey & Company. Ms. Chen holds a BS in electrical engineering from the University of Washington, an MS in electrical and computer engineering from Carnegie Mellon University and an MBA from Harvard Business School.
Bryan Lamkin	59	Executive Vice President and General Manager, Digital Media Mr. Lamkin currently serves as Executive Vice President and General Manager, Digital Media. He rejoined Adobe in February 2013 as Senior Vice President, Technology and Corporate Development. From June 2011 to May 2012, Mr. Lamkin served as President and Chief Executive Officer of Clover, a mobile payments platform. Prior to Clover, Mr. Lamkin co-founded and served as the Chief Executive Officer of Bagcheck, a sharing and discovery platform, from June 2010 to May 2011. From April 2009 to June 2010, Mr. Lamkin served as Senior Vice President of Consumer Products and Applications at Yahoo!, a global technology company providing online

search, content and communication tools. From May 2008 to April 2009, Mr. Lamkin served as Executive in Residence at Sutter Hill Ventures. Mr. Lamkin previously was with Adobe from 1992 to 2006 and held various senior management positions including Senior Vice President, Creative Solutions Business Unit.

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Name	Age	Positions
Ann Lewnes	58	Executive Vice President and Chief Marketing Officer Ms. Lewnes joined Adobe in November 2006 and currently serves as Executive Vice President and Chief Marketing Officer. Prior to joining Adobe, Ms. Lewnes spent 20 years at Intel Corporation, where she was Vice President of Sales and Marketing. Ms. Lewnes is a board member of Mattel and the Adobe Foundation.
Donna Morris	52	Chief Human Resources Officer and Executive Vice President, Employee Experience Ms. Morris currently serves as Chief Human Resources Officer and Executive Vice President of Adobe's Global Customer and Employee Experience organization. Ms. Morris joined Adobe as Senior Director of Global Talent Management in April 2002 through the acquisition of Accelio Corporation, a Canadian software company, where she served as Vice President of Human Resources and Learning. In December 2005, Ms. Morris was promoted to Vice President Global Human Resources Operations and subsequently to Senior Vice President Human Resources in March 2007. Ms. Morris is a director of Marvell Technology Group Limited and the Adobe Foundation.
Abhay Parasnis	45	Executive Vice President and Chief Technology Officer Mr. Parasnis joined Adobe in July 2015 as Senior Vice President of Adobe's Cloud Technology & Services organization and Chief Technology Officer. Prior to joining Adobe, he served as President and Chief Operating Officer at Kony, Inc. from March 2013 to March 2015. From January 2012 to November 2013, Mr. Parasnis was a Senior Vice President and later Strategic Advisor for the Oracle Public Cloud at Oracle. Prior to joining Oracle, he was General Manager of Microsoft Azure AppFabric at Microsoft from April 2009 to December 2011.
Dana Rao	50	Executive Vice President, General Counsel and Corporate Secretary Mr. Rao currently serves as our Executive Vice President, General Counsel and Corporate Secretary. He joined Adobe in April 2012 and served as our Vice President, Intellectual Property and Litigation where he spearheaded strategic initiatives including the company's litigation efforts, and its patent, trademark and copyright portfolio strategies until June 2018. Prior to joining Adobe, Mr. Rao was with Microsoft Corporation for 11 years, serving in a variety of roles including Associate General Counsel of Intellectual Property and Licensing, where he oversaw all patent matters for Microsoft's entertainment and devices division as well as the company-wide patent acquisition team. From 1997 until March 2001, he served as a patent attorney at Fenwick & West. He holds a B.S. in Electrical Engineering from Villanova University and a J.D. from George Washington University.
Matthew Thompson	61	Executive Vice President, Worldwide Field Operations Mr. Thompson currently serves as Executive Vice President, Worldwide Field Operations. Mr. Thompson joined Adobe in January 2007 as Senior Vice President, Worldwide Field Operations. In January 2013, he was promoted to Executive Vice President, Worldwide Field Operations. Prior to joining Adobe, Mr. Thompson served as Senior Vice President of Worldwide Sales at Borland Software Corporation, a software delivery optimization solutions provider, from October 2003 to December 2006. Prior to joining Borland, Mr. Thompson was Vice President of Worldwide Sales and Field Operations for Marimba, Inc., a provider of products and services for software change and configuration management, from February 2001 to January 2003. From July 2000 to January 2001, Mr. Thompson was Vice President of Worldwide Sales for Calico Commerce, Inc., a provider of eBusiness applications. Prior to joining Calico, Mr. Thompson spent six years at Cadence Design Systems, Inc., a provider of electronic design technologies. While at Cadence, from January 1998 to June 2000, Mr. Thompson served as Senior Vice President, Worldwide Sales and Field Operations and from April 1994 to January 1998 as Vice President, Worldwide Professional Services. Mr. Thompson is a board member of NCR Corporation.
Mark Garfield	49	Vice President, Chief Accounting Officer and Corporate Controller Mr. Garfield currently serves as our Vice President, Chief Accounting Officer and Corporate Controller. Prior to joining Adobe in December 2018, Mr. Garfield served as the Vice President of Finance of Cloudflare, Inc. commencing in November 2017. He served as Senior Vice President and Chief Accounting Officer at Symantec Corporation from March 2014 to October 2017. Prior to joining Symantec, he was at Brightstar Corporation where he served primarily as Senior Vice President and Chief Accounting Officer from January 2013 to February 2014. Mr. Garfield served

as Director of Finance at Advanced Micro Devices from August 2010 to December 2012. Prior to Advanced Micro Devices, Mr. Garfield also served in senior level finance roles at LoudCloud and Ernst and Young. Mr. Garfield holds a B.A. in Business Economics from University of California at Santa Barbara.

ITEM 1A. RISK FACTORS

As previously discussed, our actual results could differ materially from our forward-looking statements. Below we discuss some of the factors that could cause these differences. These and many other factors described in this report could adversely affect our operations, performance and financial condition.

Our competitive position and results of operations could be harmed if we do not compete effectively.

The markets for our products and services are characterized by intense competition, new industry standards, evolving distribution models, limited barriers to entry, disruptive technology developments, short product life cycles, customer price sensitivity and frequent product introductions (including alternatives with limited functionality available at lower costs or free of charge). Any of these factors could create downward pressure on pricing and gross margins and could adversely affect our renewal and upsell and cross-sell rates, as well as our ability to attract new customers. Our future success will depend on our continued ability to enhance and integrate our existing products and services, introduce new products and services in a timely and cost-effective manner, meet changing customer expectations and needs, extend our core technology into new applications, and anticipate emerging standards, business models, software delivery methods and other technological developments. Furthermore, some of our competitors and potential competitors enjoy competitive advantages such as greater financial, technical, sales, marketing and other resources, broader brand awareness and access to larger customer bases. As a result of these advantages, potential and current customers might select the products and services of our competitors, causing a loss of our market share. In addition, consolidation has occurred among some of our competitors. Further consolidations in these markets may subject us to increased competitive pressures and may 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” contained in Part I. Item 1 of this report.

If we cannot continue to develop, acquire, market and offer new products and services or enhancements to existing products and services that meet customer requirements, our operating results could suffer.

The process of developing and acquiring new technology products and services and enhancing existing offerings is complex, costly and uncertain. If we fail to anticipate customers’ rapidly changing needs and expectations or adapt to emerging technological trends, our market share and results of operations could suffer. We must make long-term investments, develop, acquire or obtain appropriate intellectual property and commit significant resources before knowing whether our predictions will accurately reflect customer demand for our products and services. If we misjudge customer needs in the future, our new products and services may not succeed and our revenues and earnings may be harmed. Additionally, any delay in the development, acquisition, marketing or launch of a new offering or enhancement to an existing offering could result in customer attrition or impede our ability to attract new customers, causing a decline in our revenue, earnings or stock price and weakening our competitive position.

We offer our products on a variety of hardware platforms. Consumers continue to migrate from personal computers to tablet and mobile devices. If we cannot continue adapting our products to tablet and mobile devices, or if our competitors can adapt their products more quickly than us, our business could be harmed. Releases of new devices or operating systems may make it more difficult for our products to perform or may require significant costs in order for us to adapt our solutions to such devices or operating systems. These potential costs and delays could harm our business.

Introduction of new technology could harm our business and results of operations.

The expectations and needs of technology consumers are constantly evolving. Our future success depends on a variety of factors, including our continued ability to innovate, introduce new products and services efficiently, enhance and integrate our products and services in a timely and cost-effective manner, extend our core technology into new applications, and anticipate emerging standards, business models, software delivery methods and other technological developments. Integration of our products and services with one another and other companies’ offerings creates an increasingly complex ecosystem that is partly reliant on third parties. If any disruptive technology, or competing products, services or operating systems that are not compatible with our solutions, achieve widespread acceptance, our operating results could suffer and our business could be harmed.

The introduction of certain technologies may reduce the effectiveness of our products. For example, some of our products rely on third-party cookies, which are placed on individual browsers when consumers visit websites that contain advertisements. We use these cookies to help our customers more effectively advertise, gauge the performance of their advertisements and detect and prevent fraudulent activity. Consumers can block or delete cookies through their browsers or “ad-blocking” software or applications. The most common Internet browsers allow consumers to modify their browser settings to prevent cookies from being accepted by their browsers, or are set to block third-party cookies by default. Increased use of methods, software or applications that block cookies could harm our business.

Security breaches in data centers we manage, or third parties manage on our behalf, may compromise the confidentiality, integrity, or availability of employee and customer data, which could expose us to liability and adversely affect our reputation and business.

We process and store significant amounts of employee and customer data, a large volume of which is hosted by third-party service providers. A security incident impacting our own data centers or those controlled by our service providers may compromise the confidentiality, integrity or availability of this data. Unauthorized access to or loss or disclosure of data stored by Adobe or our service providers may occur through physical break-ins, breaches of a secure network by an unauthorized party, software vulnerabilities or coding errors, employee theft or misuse or other misconduct. It is also possible that unauthorized access to or disclosure of employee or customer data may be obtained through inadequate use of security controls by customers or employees. Accounts created with weak or recycled passwords could allow cyber-attackers to gain access to employee or customer data. Additionally, failure by Adobe or our customers to remove the accounts of their own employees, or the granting of accounts in an uncontrolled manner, may allow for access by former or unauthorized individuals. If there were an inadvertent disclosure of customer data, or unauthorized access to the data we possess on behalf of our customers, our operations could be disrupted, our reputation could be damaged and we could be subject to claims or other liabilities, regulatory investigations, or fines. In addition, such perceived or actual unauthorized loss or disclosure of the information we collect, process, or store or breach of our security could damage our reputation, result in the loss of customers and harm our business.

We rely on data centers managed both by Adobe and third parties to host and deliver our services, as well as access, collect, process, use, transmit and store data, and any interruptions or delays in these hosted services, or failures in data collection or transmission could expose us to liability and harm our business and reputation.

Much of our business relies on hardware and services that are hosted, managed and controlled directly by Adobe or third-party service providers, including our online store at adobe.com, Creative Cloud, Document Cloud and Experience Cloud solutions. We do not have redundancy for all of our systems, many of our critical applications reside in only one of our data centers, and our disaster recovery planning may not account for all eventualities. If our business relationship with a third-party provider of hosting or content delivery services is negatively affected, or if one of our content delivery suppliers were to terminate its agreement with us, without adequate notice, we might not be able to deliver the corresponding hosted offerings to our customers, which could subject us to reputational harm, costly and time-intensive notification requirements, and cause us to lose customers and future business. Occasionally, we migrate data among data centers and to third-party hosted environments. If a transition among data centers or to third-party service providers encounters unexpected interruptions, unforeseen complexity, or unplanned disruptions despite precautions undertaken during the process, this may impair our delivery of products and services to customers and result in increased costs and liabilities, which may harm our operating results and our business.

It is also possible that hardware or software failures or errors in our systems (or those of our third-party service providers) could result in data loss or corruption, cause the information that we collect or maintain to be incomplete or contain inaccuracies that our customers regard as significant, or cause us to fail to meet committed service levels or comply with regulatory notification requirements. Furthermore, our ability to collect and report data may be delayed or interrupted by a number of factors, including access to the Internet, the failure of our network or software systems, security breaches or significant variability in visitor traffic on customer websites. In addition, computer viruses, worms, or other malware may harm our systems, causing us to lose data, and the transmission of computer viruses or other malware could expose us to litigation or regulatory investigation, and costly and time-intensive notification requirements.

We may also find, on occasion, that we cannot deliver data and reports to our customers in near real time because of a number of factors, including significant spikes in customer activity on their websites or failures of our network or software, or the failure of our third-party service providers' network or software. If we fail to plan infrastructure capacity appropriately and expand it proportionally with the needs of our customer base, and we experience a rapid and significant demand on the capacity of our data centers or those of third parties, service outages could occur, and our customers could suffer impaired performance of our services. Such a strain on our infrastructure capacity could subject us to regulatory and customer notification requirements, violations of service level agreement commitments, financial liabilities, result in customer dissatisfaction, or harm our business. If we supply inaccurate information or experience interruptions in our ability to capture, store and supply information in near real time or at all, our reputation could be harmed and we could lose customers as a result, or we could be found liable for damages or incur other losses.

Increasing regulatory focus on privacy and security issues and expanding laws could impact our business models and expose us to increased liability.

As a global company, Adobe is subject to global data privacy and security laws, regulations and codes of conduct that apply to our various business units. These laws and regulations may be inconsistent across jurisdictions and are subject to evolving and differing (sometimes conflicting) interpretations. Government officials and regulators, privacy advocates and class action attorneys

are increasingly scrutinizing how companies collect, process, use, store, share and transmit personal data. This increased scrutiny may result in new interpretations of existing laws, thereby further impacting Adobe's business. Globally, new and emerging laws, such as the General Data Protection Regulation ("GDPR") and the Network and Information Systems Directive ("NISD") in Europe, state laws in the U.S. on privacy, data and related technologies, such as the California Consumer Privacy Act, as well as industry self-regulatory codes create new compliance obligations and expand the scope of potential liability, either jointly or severally with our customers and suppliers. While we have invested in readiness to comply with applicable requirements, these new and emerging laws, regulations and codes may affect our ability (and our enterprise customers' ability) to reach current and prospective customers, to respond to both enterprise and individual customer requests under the laws (such as individual rights of access, correction and deletion of their personal information), and to implement our business models effectively. These new laws may also impact our innovation and business drivers in developing new and emerging technologies (e.g., artificial intelligence and machine learning). These requirements, among others, may impact demand for our offerings and force us to bear the burden of more onerous obligations in our contracts. Any perception of our practices, products or services as a violation of individual privacy rights may subject us to public criticism, class action lawsuits, reputational harm, or investigations or claims by regulators, industry groups or other third parties, all of which could disrupt our business and expose us to increased liability. Additionally, we collect and store information on behalf of our business customers and if our customers fail to comply with contractual obligations or applicable laws, it could result in litigation or reputational harm to us.

Transferring personal information across international borders is becoming increasingly complex. For example, European data transfers outside the European Economic Area are highly regulated. The mechanisms that we and many other companies rely upon for European data transfers (e.g., Privacy Shield and Model Clauses) are being contested in the European court system. We are closely monitoring developments related to requirements for transferring personal data outside the European Union and other countries that have similar trans-border data flow requirements. These requirements may result in an increase in the obligations required to provide our services in the European Union or in sanctions and fines for non-compliance. Several other countries, including Australia and Japan, have also established specific legal requirements for cross-border transfers of personal information. Other countries, such as India, are considering requirements for data localization (e.g., where personal data must remain in the country). If the mechanisms for transferring personal information from certain countries or areas, including Europe to the United States, should be found invalid or if other countries implement more restrictive regulations for cross-border data transfers (or not permit data to leave the country of origin), such developments could harm our business, financial condition and results of operations.

Security vulnerabilities in our products and systems, or in our supply chain, could lead to reduced revenue or to liability claims.

Maintaining the security of our products and services is a critical issue for us and our customers. Security threats to our information systems, end points and networks have the potential to impact our customers as well. Security researchers, criminal hackers and other third parties regularly develop new techniques to penetrate our end points, information systems and network security measures. And, as we have previously disclosed, certain unauthorized parties have in the past managed to gain access to and misuse some of our systems and software in order to access our end users' authentication, payment and personal information. In addition, cyber-attackers also develop and deploy viruses, worms, credential stuffing attack tools and other malicious software programs, some of which may be specifically designed to attack our products, services, information systems or networks. Hardware, software and operating system applications that we develop or procure from third parties may contain defects in design or manufacture, including bugs, vulnerabilities and other problems that could unexpectedly compromise the security of the system or impair a customer's ability to operate or use our products. The costs to prevent, eliminate, mitigate, or alleviate cyber- or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities are significant, and our efforts to address these problems, including notifying affected parties, may not be successful or may be delayed and could result in interruptions, delays, cessation of service and loss of existing or potential customers. It is impossible to predict the extent, frequency or impact these problems may have on us.

Outside parties have in the past and may in the future attempt to fraudulently induce our employees or users of our products or services to disclose sensitive, personal, or confidential information via illegal electronic spamming, phishing or other tactics. Unauthorized parties may also attempt to gain physical access to our facilities in order to infiltrate our information systems or attempt to gain logical access to our products, services, or information systems for the purpose of exfiltrating content and data. These actual and potential breaches of our security measures and the accidental loss, inadvertent disclosure or unauthorized dissemination of proprietary information or sensitive, personal or confidential data about us, our employees, our customers or their end users, including the potential loss or disclosure of such information or data as a result of hacking, fraud, trickery or other forms of deception, could expose us, our employees, our customers or the individuals affected to a risk of loss or misuse of this information. This may result in litigation and liability or fines, our compliance with costly and time-intensive notice requirements, governmental inquiry or oversight or a loss of customer confidence, any of which could harm our business or damage our brand and reputation, possibly impeding our present and future success in retaining and attracting new customers and thereby requiring time and resources to repair our brand and reputation. These risks will likely increase as we expand our hosted offerings, integrate our products and services and store and process more data, including personal information.

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These problems affect our products and services in particular because cyber-attackers tend to focus their efforts on popular offerings with a large user base, and we expect them to continue to do so. Critical vulnerabilities may be identified in some of our applications and services and those of our third-party service providers. These vulnerabilities could cause such applications and services to crash and could allow an attacker to access our or our users' confidential or personal information or take control of the affected system, which could result in liability to us or limit our ability to conduct our business and deliver our products and services to customers. We devote significant resources to address security vulnerabilities through engineering more secure products, enhancing security and reliability features in our products and systems, code hardening, conducting rigorous penetration tests, deploying updates to address security vulnerabilities, reviewing our service providers' security controls, reviewing and auditing our hosted services against independent security control frameworks (such as ISO 27001, SOC 2 and PCI), and improving our incident response time, but these security vulnerabilities cannot be totally eliminated. The cost of these steps could reduce our operating margins, and we may be unable to implement these measures quickly enough to prevent cyber-attackers from gaining unauthorized access into our systems and products. Despite our preventative efforts, actual or perceived security vulnerabilities in our products and systems may harm our reputation or lead to claims against us (and have in the past led to such claims), and could lead some customers to stop using certain products or services, to reduce or delay future purchases of products or services, or to use competing products or services. If we do not make the appropriate level of investment in our technology systems or if our systems become out-of-date or obsolete and we are not able to deliver the quality of data security customers require, our business could be adversely affected. Customers may also adopt security measures designed to protect their existing computer systems from attack, which could delay adoption of new technologies. Further, if we, our supply chain, or our customers are subject to a future attack, or our technology is used in a third-party attack, we could be subject to costly and time-intensive notice requirements, and it may be necessary for us to take additional extraordinary measures and make additional expenditures to take appropriate responsive and preventative steps. Any of these events could adversely affect our revenue or margins. Moreover, delayed sales, lower margins or lost customers resulting from disruptions caused by cyber-attacks or preventative measures could adversely affect our financial results, stock price and reputation.

Some of our enterprise offerings have extended and complex sales cycles, which can make our sales cycles unpredictable.

Sales cycles for some of our enterprise offerings, including our Adobe Experience Cloud and Adobe Experience Platform solutions and Enterprise Term License Agreements ("ETLAs") in our Digital Media business, are multi-phased and complex. The complexity in these sales cycles is due to several factors, including:

- the need for our sales representatives to educate customers about the use and benefit of large-scale deployments of our products and services, including technical capabilities, security features, potential cost savings and return on investment;
- the desire of organizations to undertake significant evaluation processes to determine their technology requirements prior to making information technology expenditures;
- the need for our representatives to spend a significant amount of time assisting potential customers in their testing and evaluation of our products and services;
- intensifying competition within the industry;
- the negotiation of large, complex, enterprise-wide contracts;
- the need for our customers to obtain requisition approvals from various decision makers within their organizations due to the complexity of our solutions touching multiple departments within customers' organizations; and
- customer budget constraints, economic conditions and unplanned administrative delays.

We spend substantial time and expense on our sales efforts without assurance that potential customers will ultimately purchase our solutions. As we target our sales efforts at larger enterprise customers, these trends are expected to continue and could have a greater impact on our results of operations. Additionally, our enterprise sales pattern has historically been uneven, where a higher percentage of a quarter's total sales occur during the final weeks of each quarter, which is common in our industry. Our extended sales cycle for these products and services makes it difficult to predict when a given sales cycle will close.

If our customers fail to renew subscriptions in accordance with our expectations, our future revenue and operating results could suffer.

Our Adobe Experience Cloud, Creative Cloud and Document Cloud offerings typically involve subscription-based offerings pursuant to product and service agreements. Revenue from our subscription customers is generally recognized ratably over the term of their agreements, which typically range from 1 to 36 months. Our customers have no obligation to renew their subscriptions for our services after the expiration of their initial subscription period, and customers may not renew their subscriptions at the same or higher level of service, for the same number of seats or for the same duration of time, if at all. Moreover, under certain

circumstances, some of our customers have the right to cancel their agreements prior to the expiration of the terms. Our varied customer base combined with the flexibility we offer in the length of our subscription-based agreements complicates our ability to precisely forecast renewal rates. Therefore, we cannot provide assurance that we will be able to accurately predict future customer renewal rates.

Our customers' renewal rates may decline or fluctuate as a result of a number of factors, including their level of satisfaction with our services, our ability to continue enhancing features and functionality, the reliability (including uptime) of our subscription offerings, the prices of offerings and those offered by our competitors, the actual or perceived information security of our systems and services, decreases in the size of our customer base, reductions in our customers' spending levels or declines in customer activity as a result of economic downturns or uncertainty in financial markets. If our customers do not renew their subscriptions or if they renew on terms less favorable to us, our revenue may decline.

We face various risks associated with our operating as a multinational corporation.

As a global business that generates approximately 42% of our total revenue from sales to customers outside of the Americas, we are subject to a number of risks, including:

- foreign currency fluctuations and controls;
- international and regional economic, political and labor conditions, including any instability or security concerns abroad and the United Kingdom's vote to exit the European Union (Brexit);
- tax laws (including U.S. taxes on foreign subsidiaries);
- increased financial accounting and reporting burdens and complexities;
- changes in, or impositions of, legislative or regulatory requirements;
- changes in laws governing the free flow of data across international borders;
- failure of laws to protect our intellectual property rights adequately;
- inadequate local infrastructure and difficulties in managing and staffing international operations;
- delays resulting from difficulty in obtaining export licenses for certain technology, tariffs, quotas and other trade barriers;
- the imposition of governmental economic sanctions on countries in which we do business or where we plan to expand our business;
- costs and delays associated with developing products in multiple languages;
- operating in locations with a higher incidence of corruption and fraudulent business practices; and
- other factors beyond our control, such as terrorism, war, natural disasters and pandemics.

Some of our third-party business partners have international operations and are also subject to these risks and if our third-party business partners are unable to appropriately manage these risks, our business may be harmed. If sales to any of our customers outside of the Americas are reduced, delayed or canceled because of any of the above factors, our revenue may decline.

Our business could be harmed if we fail to effectively manage critical strategic third-party business relationships.

As our offerings expand and our customer base grows, our relationships with strategic partners become increasingly valuable. If our contractual relationships with these third parties were to terminate, or if we were unable to renew on favorable terms, our business could be harmed. This is especially the case when the third party's offerings are integrated with our products and services, or where the third party's offerings are difficult to substitute or replace. Alternative arrangements for such products and services may not be available to us, or on commercially reasonable terms, and we may experience business interruptions upon a transition to an alternative partner. The failure of third parties to provide acceptable products and services or to update their technology may result in a disruption to our business operations and those of our customers, which may reduce our revenues and profits, cause us to lose customers and damage our reputation.

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

We may not realize the anticipated benefits of an investment or acquisition of a company, division, product or technology, each of which involves numerous risks. These risks include:

- inability to achieve the financial and strategic goals for the acquired and combined businesses;
- difficulty in, and the cost of, effectively integrating the operations, technologies, products or services, and personnel of the acquired business;
- entry into markets in which we have minimal prior experience and where competitors in such markets have stronger market positions;
- disruption of our ongoing business and distraction of our management and other employees from other opportunities and challenges;
- inability to retain personnel of the acquired business;
- inability to retain key customers, distributors, vendors and other business partners of the acquired business;
- inability to take advantage of anticipated tax benefits;
- incurring acquisition-related costs or amortization costs for acquired intangible assets that could impact our operating results;
- elevated delinquency or bad debt write-offs related to receivables of the acquired business we assume;
- increased accounts receivables collection times and working capital requirements associated with acquired business models;
- additional costs of bringing acquired companies into compliance with laws and regulations applicable to a multinational corporation;
- difficulty in maintaining controls, procedures and policies during the transition and integration;
- impairment of our relationships with employees, customers, partners, distributors or third-party providers of our technologies, products or services;
- failure of our due diligence processes to identify significant problems, liabilities or other challenges of an acquired company or technology;
- exposure to litigation or other claims in connection with, or inheritance of claims or litigation risk as a result of, an acquisition, such as claims from terminated employees, customers, former stockholders or other third parties;
- incurring significant exit charges if products or services acquired in business combinations are unsuccessful;
- inability to conclude that our internal controls over financial reporting are effective;
- inability to obtain, or obtain in a timely manner, approvals from governmental authorities, which could delay or prevent such acquisitions;
- the failure of strategic investments to perform as expected or to meet financial projections;
- delay in customer and distributor purchasing decisions due to uncertainty about the direction of our product and service offerings; and
- incompatibility of business cultures.

Mergers and acquisitions of technology companies are inherently risky. If we do not complete an announced acquisition transaction or integrate an acquired business successfully and in a timely manner, we may not realize the benefits of the acquisition to the extent anticipated, and in certain circumstances an acquisition could harm our financial position.

We are subject to risks associated with compliance with laws and regulations globally, which may harm our business.

We are a global company subject to varied and complex laws, regulations and customs, both domestically and internationally. These laws and regulations relate to a number of aspects of our business, including trade protection, import and export control, data and transaction processing security, payment card industry data security standards, records management, user-generated content hosted on websites we operate, privacy practices, data residency, corporate governance, anti-trust and competition, employee and third-party complaints, anti-corruption, gift policies, conflicts of interest, securities regulations and other regulatory requirements affecting trade and investment. The application of these laws and regulations to our business is often unclear and may at times conflict. For example, in many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by U.S. regulations applicable to us, including the Foreign Corrupt Practices Act. We cannot provide assurance that our employees, contractors, agents and business partners will not take actions in violation of our internal policies or U.S. laws. Compliance with these laws and regulations may involve significant costs or require changes in our business practices that result in reduced revenue and profitability. Non-compliance could also result in fines, damages, criminal sanctions against us, our officers or our employees, prohibitions on the conduct of our business, and damage to our reputation.

In addition, approximately 48% of our employees are located outside the United States. Accordingly, we are exposed to changes in laws governing our employee relationships in various U.S. and foreign jurisdictions, including laws and regulations regarding wage and hour requirements, fair labor standards, employee data privacy, unemployment tax rates, workers' compensation rates, citizenship requirements and payroll and other taxes, which likely would have a direct impact on our operating costs.

Uncertainty about current and future economic conditions and other adverse changes in general political conditions in any of the major countries in which we do business could adversely affect our operating results.

As our business has grown, we have become increasingly subject to the risks arising from adverse changes in economic and political conditions, both domestically and globally, including trends toward protectionism and nationalism. Uncertainty about the effects of current and future economic and political conditions on us, our customers, suppliers and partners makes it difficult for us to forecast operating results and to make decisions about future investments. If economic growth in countries where we do business slows, customers may delay or reduce technology purchases, advertising spending or marketing spending. This could result in reductions in sales of our products and services, more extended sales cycles, slower adoption of new technologies and increased price competition. Among our customers are government entities, including the U.S. federal government, and our revenue could decline if spending cuts impact the government's ability to purchase our products and services. Deterioration in economic conditions in any of the countries in which we do business could also cause slower or impaired collections on accounts receivable, which may adversely impact our liquidity and financial condition.

A disruption in financial markets could impair our banking partners, on which we rely for operating cash management and affect our derivative counterparties. Any of these events would likely harm our business, financial condition and results of operations.

Political instability or adverse political developments in or around any of the major countries in which we do business would also likely harm our business, financial condition and results of operations.

Subscription offerings could create risks related to the timing of revenue recognition.

We generally recognize revenue from subscription offerings ratably over the terms of their subscription agreements, which typically range from 1 to 36 months. As a result, most of the subscription revenue we report in each quarter is the result of subscription agreements entered into during previous quarters. Any reduction in new or renewed subscriptions in a quarter may not be reflected in our revenue results until a later quarter. Declines in new or renewed subscriptions may decrease our revenue in future quarters. Lower sales, reduced demand for our products and services, and increases in our attrition rate may not be fully reflected in our results of operations until future periods. Our subscription model could also make it difficult for us to rapidly increase our revenue from subscription-based or hosted services through additional sales in any period, as revenue from new customers will be recognized over the applicable subscription term.

Additionally, in connection with our sales efforts to enterprise customers and our use of ETLAs, a number of factors could affect our revenue, including longer-than-expected sales and implementation cycles, potential deferral of revenue and alternative licensing arrangements. If any of our assumptions about revenue from our subscription-based offerings prove incorrect, our actual results may vary materially from those anticipated.

Changes in accounting principles, or interpretations thereof, could have a significant impact on our financial position and results of operations.

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”). 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, how the principles are interpreted, or the adoption of new accounting standards can have a significant effect on our reported results, and could even retroactively affect previously reported transactions, and may require that we make significant changes to our systems, processes and controls.

Changes resulting from these new standards may result in materially different financial results and may require that we change how we process, analyze and report financial information and that we change financial reporting controls. For additional information regarding these new standards, see the section titled “Recent Accounting Pronouncements Not Yet Effective” within Part II, Item 8, Note 1, Basis of Presentation and Summary of Significant Accounting Policies.

Such changes in accounting principles may have an adverse effect on our business, financial position and income, or cause an adverse deviation from our revenue and profitability targets, which may negatively impact our financial results.

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

We are a United States-based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. A significant portion of our foreign earnings for the current fiscal year were earned by our Irish subsidiaries. The Tax Cuts and Jobs Act, enacted into law on December 22, 2017, changed existing U.S. tax law applicable to us and included certain international provisions effective for us starting in fiscal 2019. The applicability and impact of these new tax provisions, and of other international tax law changes effective for fiscal 2020 and beyond, will likely require us to respond by making change(s) to our international trading structure. The net impact of such change(s) is uncertain but is anticipated to adversely affect our effective income tax rate and cash flows in years beyond fiscal 2020.

Our income tax expense has differed from the tax computed at the U.S. federal statutory income tax rate due primarily to discrete items including, but not limited to, the effects of tax credits, stock-based compensation and settlements of tax examinations, and to tax on earnings from foreign operations. Unanticipated changes in our tax rates could affect our future results of operations. Our future effective tax rates are likely to be unfavorably affected by changes in the tax rates in jurisdictions where our income is earned, by changes in our repatriation policy, by changes in or our interpretation of tax rules and regulations in the jurisdictions in which we do business, by unanticipated decreases in the amount of earnings in countries with low statutory tax rates, by unexpected negative changes in business and market conditions that could reduce certain tax benefits, or by changes in the valuation of our deferred tax assets and liabilities.

In addition, in countries where we conduct business and in jurisdictions in which we are subject to tax, including those covered by governing bodies that enact tax laws applicable to us, such as the European Commission of the European Union, we are subject to potential changes in relevant tax, accounting and other laws, regulations and interpretations, including changes to tax laws applicable to corporate multinationals such as Adobe. These countries, other governmental bodies and intergovernmental economic organizations such as the Organization for Economic Cooperation and Development, have or could make unprecedented assertions about how taxation is determined in their jurisdictions that are contrary to the way in which we have interpreted and historically applied the rules and regulations described above in our income tax returns filed in such jurisdictions. In the current global tax policy environment, any changes in laws, regulations and interpretations related to these assertions could adversely affect our effective tax rates or result in other costs to us which could adversely affect our operations and financial results.

Moreover, we are subject to the continual examination of our income tax returns by the U.S. Internal Revenue Service and other domestic and foreign tax authorities. These tax examinations are expected to focus on our intercompany transfer pricing practices as well as other matters. 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 adjustments that may result from these examinations. We cannot provide assurance that the final determination of any of these examinations will not have an adverse effect on our operating results and financial position.

If our products or platforms are used to create or disseminate objectionable content, particularly misleading content intended to manipulate public opinion, our brand reputation may be damaged, and our business and financial results may be harmed.

We believe that our brands have significantly contributed to the success of our business. Maintaining and enhancing the brands within Adobe increases our ability to enter new categories and launch new and innovative products that better serve the needs of our customers. We also believe that maintaining and enhancing our brands is critical to expanding our base of customers. Our brands may be negatively affected by the use of our products or services to create or disseminate newsworthy content that is deemed to be misleading, deceptive, or intended to manipulate public opinion (e.g. “DeepFakes”), by the use of our products or

services for illicit, objectionable, or illegal ends, or by our failure to respond appropriately and expeditiously to such uses of our products and services. Such uses of our products and services may also cause us to face claims related to defamation, rights of publicity and privacy, illegal content, misinformation and personal injury torts. Maintaining and enhancing our brands may require us to make substantial investments and these investments may not be successful. If we fail to appropriately respond to objectionable content created using our products or services or shared on our platforms, our users may lose confidence in our brands and our business and financial results may be adversely affected.

The success of some of our product and service offerings depends on our ability to continue to attract and retain customers of and contributors to our online marketplaces for creative content.

The success of some of our product and service offerings, such as Adobe Stock, depends on our ability to continue to attract new customers and contributors to these online marketplaces for creative content, as well as our ability to continue to retain existing customers and contributors. An increase in paying customers has generally resulted in more content from contributors, which increases the size of our collection and in turn attracts new paying customers. We rely on the functionality and features of our online marketplaces, the size and content of our collection and the effectiveness of our marketing efforts to attract new customers and contributors and retain existing ones. New technologies may render the features of our online marketplaces obsolete, our collection may fail to grow as anticipated or our marketing efforts may be unsuccessful, any of which may adversely affect our results of operations.

Our intellectual property portfolio is a valuable asset and we may not be able to protect our intellectual property rights, including our source code, from infringement or unauthorized copying, use or disclosure.

Our intellectual property portfolio is a valuable asset. Infringement or misappropriation of our patents, trademarks, trade secrets, copyrights and other intellectual property rights could result in lost revenues and ultimately reduce their value. Preventing unauthorized use or infringement of our intellectual property rights is inherently difficult. We actively combat software piracy as we enforce our intellectual property rights, but we nonetheless lose significant revenue due to illegal use of our software. If piracy activities continue at historical levels or increase, they may further harm our business. We apply for patents in the U.S. and internationally to protect our newly created technology and if we are unable to obtain patent protection for the technology described in our pending patent, or if the patent is not obtained timely, this could result in revenue loss, adverse effects on operations and harm to our business. We offer our products and services in foreign countries and we may seek intellectual property protection from those foreign legal systems. Some of those foreign countries may not have as robust or comprehensive of intellectual property protection laws and schemes as those offered in the U.S. In some foreign countries, the mechanisms to enforce intellectual property rights may be inadequate to protect our technology, which could harm our business.

If unauthorized disclosure of our source code occurs through security breach, cyber-attack or otherwise, we could 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 cause us to lose customers and 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, enforcing our rights may be difficult or costly.

We may incur substantial costs defending against third parties alleging that we infringe their proprietary rights.

We have been, are currently, and may in the future be, subject to claims, negotiations and complex, protracted litigation relating to disputes regarding the validity or alleged infringement of third-party intellectual property rights, including patent rights. Intellectual property disputes and litigation are typically costly and can be disruptive to our business operations by diverting the attention of management and key personnel. We may not prevail in every lawsuit or dispute. Third-party intellectual property disputes, including those initiated by patent assertion entities, could subject us to significant liabilities, require us to enter into royalty and licensing arrangements on unfavorable terms, prevent us from licensing certain of our products or offering certain of our services, subject us to injunctions restricting our sale of products or services, 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 and service agreements. In addition, we may incur significant costs in acquiring the necessary third-party intellectual property rights for use in our products, in some cases to fulfill contractual obligations with our customers. Any of these occurrences could significantly harm our business.

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 due to the global scope of our business. Global economic events, including trade disputes, economic sanctions and emerging market volatility, and associated uncertainty may cause currencies to fluctuate. 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 regularly review our program to partially hedge our exposure to foreign currency fluctuations and make adjustments as necessary. 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.

Failure of our third-party customer service and technical support providers to adequately address customers' requests could harm our business and adversely affect our financial results.

Our customers rely on our customer service support organization to resolve issues with our products and services. We outsource a substantial portion of our customer service and technical support activities to third-party service providers. We depend heavily on these third-party customer service and technical support representatives working on our behalf, and we expect to continue to rely heavily on third parties in the future. This strategy presents risks to our business due to the fact that we may not be able to influence the quality of support as directly as we would be able to do if our own employees performed these activities. Our customers may react negatively to providing information to, and receiving support from, third-party organizations, especially if these third-party organizations are based overseas. If we encounter problems with our third-party customer service and technical support providers, our reputation may be harmed, our ability to sell our offerings could be adversely affected, and we could lose customers and associated revenue.

Revenue, margin or earnings shortfalls or the volatility of the market generally may cause the market price of our stock to decline.

In the past, the market price for our common stock experienced significant fluctuations and it may do so in the future. A number of factors may affect the market price for our common stock, such as:

- shortfalls in, or changes in expectations about, our revenue, margins, earnings, Annualized Recurring Revenue (“ARR”), sales of our Digital Experience offerings, or other key performance metrics;
- changes in estimates or recommendations by securities analysts;
- whether our results meet analysts’ expectations;
- compression or expansion of multiples used by investors and analysts to value high technology SaaS companies;
- the announcement of new products or services, product enhancements, service introductions, strategic alliances or significant agreements by us or our competitors;
- the loss of large customers or our inability to increase sales to existing customers, retain customers or attract new customers;
- recruitment or departure of key personnel;
- variations in our or our competitors’ results of operations, changes in the competitive landscape generally and developments in our industry;
- general socio-economic, political or market conditions; and
- unusual events such as significant acquisitions by us or our competitors, divestitures, litigation, regulatory actions and other factors, including factors unrelated to our operating performance.

In addition, the market for technology stocks or the stock market in general may experience uneven investor confidence, which may cause the market price for our common stock to decline for reasons unrelated to our operating performance. Volatility in the market price of a company’s securities for a period of time may increase the company’s susceptibility to securities class action litigation. Oftentimes, this type of litigation is expensive and diverts management’s attention and resources which may adversely affect our business.

Contracting with government entities exposes us to additional risks inherent in the government procurement process.

We provide products and services, directly and indirectly, to a variety of government entities, both domestically and internationally. Risks associated with licensing and selling products and services to government entities include more extended sales and collection cycles, varying governmental budgeting processes and adherence to complex procurement regulations and other government-specific contractual requirements. We may be subject to audits and investigations relating to our government contracts and any violations could result in various civil and criminal penalties and administrative sanctions, including termination

of contracts, payment of fines, and suspension or debarment from future government business, as well as harm to our reputation and financial results.

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, availability and performance of our senior management. These individuals have acquired specialized knowledge and skills with respect to Adobe. The loss of any of these individuals could harm our business, especially if we have not been successful in developing adequate succession plans. Our business is also dependent on our ability to retain, hire and motivate talented, highly skilled personnel across all levels of our organization. Our efforts to attract, develop, integrate and retain highly skilled employees with appropriate qualifications may be compounded by intensified restrictions on travel, immigration, or the availability of work visas. Experienced personnel in the information technology industry are in high demand and competition for their talents is intense in many areas where our employees are located. We may experience higher compensation costs to retain senior management and experienced personnel that may not be offset by improved productivity or increased sales. If we are unable to continue to successfully attract and retain key personnel, our business may be harmed.

We continue to hire personnel in countries where exceptional technical knowledge and other expertise are offered at lower costs, which increases the efficiency of our global workforce structure and reduces our personnel related expenditures. Nonetheless, as globalization continues, competition for these employees in these countries has increased, which may impact our ability to retain these employees and increase our expenses resulting from competitive compensation. We may continue to expand our international operations and international sales and marketing activities, which would require significant management attention and resources. We may be unable to scale our infrastructure effectively or as quickly as our competitors in these markets, and our revenue may not increase to offset these expected increases in costs and operating expenses, causing our results to suffer.

We believe that a critical contributor to our success to date has been our corporate culture, which we have built to foster innovation, teamwork and employee satisfaction. As we grow, including from the integration of employees and businesses acquired in connection with previous or future acquisitions, we may find it difficult to maintain important aspects of our corporate culture, which could negatively affect our ability to retain and recruit personnel who are essential to our future success.

Failure to manage our sales and distribution channels effectively could result in a loss of revenue and harm to our business.

We contract with a number of software distributors and other strategic partners, none of which are individually responsible for a material amount of our total net revenue for any recent period. Nonetheless, if any single agreement with one of our distributors were terminated, any prolonged delay in securing a replacement distributor could have a negative impact on our results of operations.

Successfully managing our indirect distribution channel efforts to reach various customer segments for our products and services is a complex process across the broad range of geographies where we do business or plan to do business. Our distributors and other channel partners are independent businesses that we do not control. Notwithstanding the independence of our channel partners, we face legal risk and potential reputational harm from the activities of these third parties including, but not limited to, export control violations, workplace conditions, corruption and anti-competitive behavior.

We cannot be certain that our distribution channel will continue to market or sell our products and services effectively. If our distribution channel is not successful, we may lose sales opportunities, customers and revenue. Our distributors also sell our competitors' products and services, and if they favor our competitors' products or services for any reason, they may fail to market our products or services effectively or to devote resources necessary to provide effective sales, which would cause our results to suffer. We also distribute some products and services through our OEM channel, and if our OEMs decide not to bundle our applications on their devices, our results could suffer. In addition, the financial health of our distributors and our continuing relationships with them are important to our success. Some of these distributors may be unable to withstand adverse changes in economic conditions, which could result in insolvency, the inability of such distributors to obtain credit to finance purchases of our products and services, or a delay in paying their obligations to us.

We also sell some of our products and services through our direct sales force. Risks associated with this sales channel include more extended sales and collection cycles associated with direct sales efforts, challenges related to hiring, retaining and motivating our direct sales force, and substantial amounts of ongoing training for sales representatives. Moreover, recent hires may not become as productive as we would like, as in most cases it takes a significant period of time before they achieve full productivity. Our business could be seriously harmed if our expansion efforts do not generate a corresponding significant increase in revenue and we are unable to achieve the efficiencies we anticipate. In addition, the loss of key sales employees could impact our customer relationships and future ability to sell to certain accounts covered by such employees.

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

GAAP requires us to test for goodwill impairment at least annually. In addition, we review our goodwill and amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. 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 declines in stock price, market capitalization or cash flows, and slower growth rates in our industry. Depending on the results of our review, we could be required to record a significant charge to earnings in our consolidated financial statements during the period in which any impairment of our goodwill or amortizable intangible assets were determined, negatively impacting our results of operations.

We have issued \$1.9 billion of notes in debt offerings and have a \$2.25 billion term loan, and may incur other debt in the future, which may adversely affect our financial condition and future financial results.

We have \$1.9 billion in senior unsecured notes and a \$2.25 billion senior unsecured term loan outstanding. We also have a \$1 billion senior unsecured revolving credit agreement, which is currently undrawn. This debt may adversely affect our financial condition and future financial results by, among other things:

- increasing our vulnerability to adverse changes in general economic and industry conditions;
- requiring the dedication of a portion of our expected cash flow from operations to service our indebtedness, thereby reducing the amount of expected cash flow available for other purposes, including capital expenditures and acquisitions; and
- limiting our flexibility in planning for, or reacting to, changes in our business and our industry.

Our senior unsecured notes and senior unsecured credit agreements impose restrictions on us and require us to maintain compliance with specified covenants. Our ability to comply with these covenants may be affected by events beyond our control. If we breach any of the covenants and do not obtain a waiver from the noteholders or lenders, then, subject to applicable cure periods, any outstanding indebtedness may be declared immediately due and payable.

In addition, changes by any rating agency to our credit rating may negatively impact the value and liquidity of both our debt and equity securities, as well as the potential costs associated with a refinancing of our debt. Under certain circumstances, if our credit ratings are downgraded or other negative action is taken, the interest rate payable by us under our revolving credit facility and Term Loan could increase. Downgrades in our credit ratings could also affect the terms of any such financing and restrict our ability to obtain additional financing in the future.

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 website for our development, marketing, operations, support, hosted services and sales activities. In addition, some of our businesses rely on third-party hosted services, and we do not control the operation of third-party data center facilities serving our customers from around the world, which increases our vulnerability. A disruption, infiltration or failure of these systems or third-party hosted services in the event of a major earthquake, fire, flood, tsunami or other weather event, power loss, telecommunications failure, software or hardware malfunctions, pandemics, cyber-attack, war, terrorist attack or other catastrophic event that our disaster recovery plans do not adequately address, could cause system interruptions, reputational harm, loss of intellectual property, delays in our product development, lengthy interruptions in our services, breaches of data security and loss of critical data. Any of these events could prevent us from fulfilling our customers' orders or could negatively impact a country or region in which we sell our products, which could in turn decrease that country's or region's demand for our products. Our corporate headquarters, a significant portion of our research and development activities, certain of our data centers and certain other critical business operations are located in the San Francisco Bay Area, and additional facilities where we conduct significant operations are located in the Salt Lake Valley Area, both of which are near major earthquake faults. A catastrophic event that results in the destruction or disruption of any of our data centers or 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.

Climate change may have a long-term impact on our business.

While we seek to partner with organizations that mitigate their business risks associated with climate change, we recognize that there are inherent risks wherever business is conducted. Access to clean water and reliable energy in the communities where we conduct our business, whether for our offices or for our vendors, is a priority. Our major sites in California, Utah and India are vulnerable to climate change effects. For example, in California, increasing intensity of drought throughout the state and annual periods of wildfire danger increase the probability of planned power outages in the communities where we work and live. While

this danger has a low-assessed risk of disrupting normal business operations, it has the potential impact on employees' abilities to commute to work and to stay connected. Climate-related events, including the increasing frequency of extreme weather events and their impact on U.S., India and other major regions' critical infrastructure, have the potential to disrupt our business, our third-party suppliers, and/or the business of our customers, and may cause us to experience higher attrition, losses, and additional costs to maintain or resume operations. To accurately assess and take potential proactive action as appropriate, Adobe is aligned with the guidelines of the Financial Stability Board's Task Force on Climate-related Financial Disclosures recommendations and the Sustainability Accounting Standards Board environmental metrics.

Our investment portfolio may become impaired by deterioration of the financial markets.

Our cash equivalent and short-term investment portfolio as of November 29, 2019 consisted of asset-backed securities, corporate debt securities, money market mutual funds, municipal securities, time deposits and U.S. Treasury securities. We follow an established investment policy and set of guidelines to monitor and help mitigate our exposure to interest rate and credit risk. The policy sets forth credit quality standards and limits our exposure to any one issuer, as well as our maximum exposure to various asset classes.

Should financial market conditions worsen in the future, investments in some financial instruments may pose risks arising from market liquidity and credit concerns. In addition, any deterioration of the capital markets could cause our other income and expense to vary from expectations. As of November 29, 2019, we had no material impairment charges associated with our short-term investment portfolio, and although we believe our current investment portfolio has little risk of material impairment, we cannot predict future market conditions, market liquidity or credit availability, and can provide no assurance that our investment portfolio will remain materially unimpaired.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following table sets forth the location, approximate square footage and use of our material properties during fiscal 2019:

Location	Owned / Leased	Approximate Square Footage	Use
Americas:			
San Jose, California	Owned & leased	1,081,000 ⁽¹⁾	Research, product development, sales, marketing and administration
San Francisco, California	Owned & leased	657,000 ⁽²⁾	Research, product development, sales, marketing and administration
APAC:			
Bangalore, India	Owned & leased	422,000 ⁽³⁾	Research, product development, sales and administration
Noida, India	Owned & leased	554,000 ⁽⁴⁾	Research, product development, sales and administration
EMEA:			
Greater London Area, United Kingdom	Leased	92,000	Product development, sales, marketing and administration

⁽¹⁾ We own approximately 989,000 square feet of our San Jose properties where our headquarters is located.

⁽²⁾ We own approximately 346,000 square feet of our San Francisco properties

⁽³⁾ We own approximately 250,000 square feet of our Bangalore properties.

⁽⁴⁾ We own our Noida properties except for a land lease for one of our buildings. The term for the land lease is until 2091.

We lease or sublease the properties we occupy under operating leases. Such leases expire at various times through 2031, with the exception of our ground lease in Noida.

In general, all facilities are in good condition, suitable for the conduct of our business and are operating at an average capacity of approximately 95%.

ITEM 3. LEGAL PROCEEDINGS

In connection with disputes relating to the validity or alleged infringement of third-party intellectual property 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 may be 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. Third-party intellectual property disputes could subject us to significant liabilities, require us to enter into royalty and licensing arrangements on unfavorable terms, prevent us from licensing certain of our products or offering certain of our services, subject us to injunctions restricting our sale of products or services, 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 and service agreements.

In addition to intellectual property disputes, we are subject to legal proceedings, claims and investigations in the ordinary course of business, including claims relating to commercial, employment and other matters. Some of these disputes and legal proceedings may include speculative claims for substantial or indeterminate amounts of damages. We consider all claims on a quarterly basis in accordance with GAAP and, based on known facts, assess whether potential losses are considered reasonably possible, probable and estimable. Based upon this assessment, we then evaluate disclosure requirements and whether to accrue for such claims in our financial statements. This determination is then reviewed and discussed with the Audit Committee of the Board of Directors and our independent registered public accounting firm.

We make a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Unless otherwise specifically disclosed in our Consolidated Financial Statements and notes thereto, we have determined that no provision for liability or disclosure is required related to any claim against us because: (a) there is not a reasonable possibility that a loss exceeding amounts already recognized (if any) may be incurred with respect to such claim; (b) a reasonably possible loss or range of loss cannot be estimated; or (c) such estimate is immaterial.

All legal costs associated with litigation are expensed as incurred. Litigation is inherently unpredictable. However, we believe that we have valid defenses with respect to the legal matters pending against us. It is possible, nevertheless, that our consolidated financial position, cash flows or results of operations could be negatively affected by an unfavorable resolution of one or more of such proceedings, claims or investigations.

In connection with our piracy conversion efforts, conducted both internally and through organizations such as the Business Software Alliance, from time to time we undertake litigation against alleged copyright infringers. Such lawsuits may lead to counter-claims alleging improper use of litigation or violation of other laws. We believe we have valid defenses with respect to such counter-claims; however, it is possible that our consolidated financial position, cash flows or results of operations could be negatively affected in any particular period by the resolution of one or more of these counter-claims.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***Market Information for Common Stock*

Our common stock is traded on the NASDAQ Global Select Market under the symbol “ADBE.”

Stockholders

According to the records of our transfer agent, there were 993 holders of record of our common stock on January 10, 2020. Because many of such shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

Dividends

We do not anticipate paying any cash dividends in the foreseeable future.

Issuer Purchases of Equity Securities

Below is a summary of stock repurchases for the three months ended November 29, 2019. *See Note 14 of our Notes to Consolidated Financial Statements for information regarding our stock repurchase programs.*

<u>Period</u>	<u>Total Number of Shares Repurchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans</u>	<u>Approximate Dollar Value that May Yet be Purchased Under the Plan⁽¹⁾</u>
(in thousands, except average price per share)				
Beginning repurchase authority				\$ 6,100,054
August 31 — September 27, 2019				
Shares repurchased	885	\$ 282.43	885	\$ (250,054)
September 28 — October 25, 2019				
Shares repurchased	927	\$ 274.12	927	\$ (254,032) ⁽²⁾
October 26 — November 29, 2019				
Shares repurchased	954	\$ 279.52	954	\$ (266,779) ⁽²⁾
<u>Total</u>	<u>2,766</u>		<u>2,766</u>	<u>\$ 5,329,189</u>

⁽¹⁾ In May 2018, the Board of Directors granted authority to repurchase up to \$8 billion in common stock through the end of fiscal 2021.

⁽²⁾ In September 2019, we entered into a structured stock repurchase agreement with a large financial institution whereupon we provided them with a prepayment of \$750 million. As of November 29, 2019, approximately \$229.2 million of the prepayment remained under this agreement.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data is derived from our Consolidated Financial Statements. As our historical operating results are not necessarily indicative of future operating results, this data should be read in conjunction with the Consolidated Financial Statements and notes thereto, and with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

(in thousands, except per share amounts and employee data)

Fiscal Years

	2019 ⁽¹⁾	2018	2017	2016 ⁽³⁾	2015
Operations:					
Revenue:	\$ 11,171,297	\$ 9,030,008	\$ 7,301,505	\$ 5,854,430	\$ 4,795,511
Gross profit	\$ 9,498,577	\$ 7,835,009	\$ 6,291,014	\$ 5,034,522	\$ 4,051,194
Income before income taxes	\$ 3,204,741	\$ 2,793,876	\$ 2,137,641	\$ 1,435,138	\$ 873,781
Net income	\$ 2,951,458	\$ 2,590,774	\$ 1,693,954	\$ 1,168,782	\$ 629,551
Net income per share:					
Basic	\$ 6.07	\$ 5.28	\$ 3.43	\$ 2.35	\$ 1.26
Diluted	\$ 6.00	\$ 5.20	\$ 3.38	\$ 2.32	\$ 1.24
Shares used to compute basic net income per share	486,291	490,564	493,632	498,345	498,764
Shares used to compute diluted net income per share	491,572	497,843	501,123	504,299	507,164
Financial position:					
Cash, cash equivalents and short-term investments	\$ 4,176,976	\$ 3,228,962	\$ 5,819,774	\$ 4,761,300	\$ 3,988,084
Working capital ⁽²⁾	\$ (1,696,013)	\$ 555,913	\$ 3,720,356	\$ 3,028,139	\$ 2,608,336
Total assets	\$ 20,762,400	\$ 18,768,682	\$ 14,535,556	\$ 12,697,246	\$ 11,714,500
Debt, current	\$ 3,149,343	\$ —	\$ —	\$ —	\$ —
Debt, non-current	\$ 988,924	\$ 4,124,800	\$ 1,881,421	\$ 1,892,200	\$ 1,895,259
Stockholders' equity	\$ 10,530,155	\$ 9,362,114	\$ 8,459,869	\$ 7,424,835	\$ 7,001,580
Additional data:					
Worldwide employees	22,634	21,357	17,973	15,706	13,893

⁽¹⁾ On December 1, 2018, the beginning of our fiscal year 2019, we adopted the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, Topic 606, utilizing the modified retrospective method of transition. Prior period information has not been restated and continues to be reported under the accounting standard in effect for those periods.

⁽²⁾ As of November 29, 2019, working capital was in a deficit primarily due to the reclassification of our \$2.25 billion term loan due April 30, 2020 and \$900 million 4.75% senior notes due February 1, 2020 to current liabilities. We intend to refinance our Term Loan and 2020 Notes on or before the due dates.

⁽³⁾ Our fiscal year is a 52- or 53-week year that ends on the Friday closest to November 30. Fiscal 2016 was a 53-week fiscal year compared with the other periods presented which were 52-week fiscal years.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our Consolidated Financial Statements and Notes thereto. Discussion regarding our financial condition and results of operations for fiscal 2018 as compared to fiscal 2017 is included in Item 7 of our Annual Report on Form 10-K for the fiscal year ended November 30, 2018, filed with the SEC on January 25, 2019.

ACQUISITIONS

During fiscal 2019, we acquired the remaining interest in Allegorithmic SAS (“Allegorithmic”), a privately held 3D editing and authoring software company for gaming and entertainment, for approximately \$106.2 million in cash consideration, and integrated it into our Digital Media reportable segment.

During fiscal 2018, we completed our acquisitions of Marketo, a privately held marketing cloud platform company, for \$4.73 billion and Magento, a privately held commerce platform company, for \$1.64 billion, and integrated them into our Digital Experience reportable segment.

During fiscal 2017, we completed our acquisition of TubeMogul, a publicly held video advertising platform company, for \$560.8 million, and integrated it into our Digital Experience reportable segment.

We also completed other immaterial business acquisitions during the fiscal years presented.

See Note 3 of our Notes to Consolidated Financial Statements for further information regarding these acquisitions, including pro forma financial information related to the Marketo acquisition. Pro forma information has not been presented for our other acquisitions during the fiscal years presented as the impact to our Consolidated Financial Statements was not material.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing our Consolidated Financial Statements in accordance with GAAP and pursuant to the rules and regulations of the SEC, we make assumptions, judgments and estimates that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosures of contingent assets and liabilities. We base our assumptions, judgments and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. On a regular basis, we evaluate our assumptions, judgments and estimates. We also discuss our critical accounting policies and estimates with the Audit Committee of the Board of Directors.

We believe that the assumptions, judgments and estimates involved in the accounting for revenue recognition, business combinations and income taxes have the greatest potential impact on our Consolidated Financial Statements. These areas are key components of our results of operations and are based on complex rules requiring us to make judgments and estimates, and consequently, we consider these to be our critical accounting policies. Historically, our assumptions, judgments and estimates relative to our critical accounting policies have not differed materially from actual results.

Revenue Recognition

Our contracts with customers may include multiple goods and services. For example, some of our offerings include both on-premise and/or on-device software licenses and cloud services. Determining whether the software licenses and the cloud services are distinct from each other, and therefore performance obligations to be accounted for separately, or not distinct from each other, and therefore part of a single performance obligation, may require significant judgment. We have concluded that the on-premise/on-device software licenses and cloud services provided in our Creative Cloud and Document Cloud subscription offerings are not distinct from each other such that revenue from each offering should be recognized ratably over the subscription period for which the cloud services are provided. In reaching this conclusion, we considered the nature of our promise to Creative Cloud and Document Cloud customers, which is to provide a complete end-to-end creative design or document workflow solution that operates seamlessly across multiple devices and teams. We fulfill this promise by providing access to a solution that integrates cloud-based and on-premise/on-device features that, together through their integration, provide functionalities, utility and workflow efficiencies that could not be obtained from either the on-premise/on-device software or cloud services on their own.

Cloud-based features that are integral to our Creative Cloud and Document Cloud offerings and that work together with the on-premise/on-device software include, but are not limited to: Creative Cloud Libraries, which enable customers to access their work, settings, preferences, and other assets seamlessly across desktop and mobile devices and collaborate across teams in real time; shared reviews which enable simultaneous editing and commenting of PDFs across desktop, mobile, and web; automatic cloud rendering of a design which enables it to be worked on in multiple mediums; and Sensei, Adobe's cloud-hosted artificial intelligence and machine learning framework, which enables features such as automated photo-editing, photograph content-awareness, natural language processing, optical character recognition, and automated document tagging.

Business Combinations

We allocate the purchase price of acquired companies to tangible and intangible assets acquired and liabilities assumed based upon their estimated fair values at the acquisition date. The purchase price allocation process requires management to make significant estimates and assumptions with respect to intangible assets and deferred revenue obligations. Although we believe the assumptions and estimates we have made are reasonable, they are based in part on historical experience, market conditions and information obtained from management of the acquired companies and are inherently uncertain. Examples of critical estimates in valuing certain of the intangible assets we have acquired or may acquire in the future include but are not limited to:

- future expected cash flows from software license sales, subscriptions, support agreements, consulting contracts and acquired developed technologies and patents;
- historical and expected customer attrition rates and anticipated growth in revenue from acquired customers;
- the acquired company's trade name and trademarks as well as assumptions about the period of time the acquired trade name and trademarks will continue to be used in the combined company's product portfolio;
- the expected use of the acquired assets; and
- discount rates.

In connection with the purchase price allocations for our acquisitions, we estimate the fair value of the deferred revenue obligations assumed. The estimated fair value of these obligations is determined utilizing a cost build-up approach. The cost build-up approach determines fair value by estimating the costs related to fulfilling the obligations plus a normal profit margin.

Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results.

Accounting for Income Taxes

We use the asset and liability method of accounting for income taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year. In addition, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. Management must make assumptions, judgments and estimates to determine our current provision for income taxes and also our deferred tax assets and liabilities.

Our assumptions, judgments and estimates relative to the current provision for income taxes take into account current tax laws, our interpretation of current tax laws and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. We have established reserves for income taxes to address potential exposures involving tax positions that could be challenged by tax authorities. In addition, we are subject to the continual examination of our income tax returns by the U.S. Internal Revenue Service ("IRS") and other domestic and foreign tax authorities. We expect future examinations to focus on our intercompany transfer pricing practices as well as other matters. 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 such examinations. We believe such estimates to be reasonable; however, the final determination of any of these examinations could significantly impact the amounts provided for income taxes in our Consolidated Financial Statements.

Recent Accounting Pronouncements

See Note 1 of our Notes to Consolidated Financial Statements for information regarding recent accounting pronouncements that are of significance, or potential significance to us.

RESULTS OF OPERATIONS

Overview of 2019

For fiscal 2019, we reported strong financial results consistent with the continued execution of our long-term plans for our two strategic growth areas, Digital Media and Digital Experience, while continuing to market and license a broad portfolio of products and solutions.

On December 1, 2018, the beginning of our fiscal year 2019, we adopted the requirements of the new revenue standard utilizing the modified retrospective method of transition, and began to report our financial results under the new revenue standard. The impact of the adoption was not significant to our results of operations.

In our Digital Media segment, we are a market leader with Creative Cloud, our subscription-based offering which provides desktop tools, mobile apps and cloud-based services for designing, creating and publishing rich and immersive content. Creative Cloud delivers value with deep, cross-product integration, frequent product updates and feature enhancements, cloud-enabled services including storage and syncing of files across users' machines, machine learning and artificial intelligence, access to marketplace, social and community-based features with our Adobe Stock and Behance services, app creation capabilities, tools which assist with enterprise deployments and team collaboration, and affordable pricing for cost-sensitive customers.

We offer Creative Cloud for individuals, students, teams and enterprises. We expect Creative Cloud will drive sustained long-term revenue growth through a continued expansion of our customer base by acquiring new users as a result of low cost of entry and delivery of additional features and value to Creative Cloud, as well as keeping existing customers current on our latest release. We have also built out a marketplace for Creative Cloud subscribers to enable the delivery and purchase of stock content in our Adobe Stock service. Overall, our strategy with Creative Cloud is designed to enable us to increase our revenue with users, attract more new customers, and grow our recurring and predictable revenue stream that is recognized ratably.

We continue to implement strategies that will accelerate awareness, consideration and purchase of subscriptions to our Creative Cloud offerings. These strategies include increasing the value Creative Cloud users receive, such as offering new desktop and mobile applications, as well as targeted promotions and offers that attract past customers and potential users to try out and ultimately subscribe to Creative Cloud. Because of the shift towards Creative Cloud subscriptions and Enterprise Term License Agreements ("ETLAs"), revenue from perpetual licensing of our Creative products has been immaterial to our business.

We are also a market leader with our Adobe Document Cloud offerings built around our Adobe Acrobat family of products, including Adobe Acrobat Reader DC, and a set of integrated cloud-based document services, including Adobe Sign. Acrobat provides reliable creation and exchange of electronic documents, regardless of platform or application source type. Document Cloud, which we believe enhances the way people manage critical documents at home, in the office and across devices, includes Adobe Acrobat DC and Adobe Sign, and a set of integrated services enabling users to create, review, approve, sign and track documents whether on a desktop or mobile device. Adobe Acrobat DC, with a touch-enabled user interface, is offered both through subscription and perpetual licenses.

Annualized Recurring Revenue ("ARR") is currently the key performance metric our management uses to assess the health and trajectory of our overall Digital Media segment. ARR should be viewed independently of revenue, deferred revenue, unbilled backlog and remaining performance obligation as ARR is a performance metric and is not intended to be combined with any of these items. We adjust our reported ARR on an annual basis to reflect any material exchange rates changes. Our reported ARR results in the current fiscal year are based on currency rates set at the beginning of the year and held constant throughout the year. We calculate ARR as follows:

Creative ARR	Annual Value of Creative Cloud Subscriptions and Services + Annual Creative ETLA Contract Value
Document Cloud ARR	Annual Value of Document Cloud Subscriptions and Services + Annual Document Cloud ETLA Contract Value
Digital Media ARR	Creative ARR + Document Cloud ARR

Creative ARR exiting fiscal 2019 was \$7.31 billion, up from \$5.92 billion at the end of fiscal 2018. Document Cloud ARR exiting fiscal 2019 was \$1.09 billion, up from \$791 million at the end of fiscal 2018. Total Digital Media ARR grew to \$8.40 billion at the end of fiscal 2019, up from \$6.71 billion at the end of fiscal 2018. Revaluing our ending ARR for fiscal 2019 using currency rates at the beginning of fiscal 2019, our Digital Media ARR at the end of fiscal 2019 would be \$8.33 billion or approximately \$66 million lower than the ARR reported above.

Our success in driving growth in ARR has positively affected our revenue growth. Creative revenue in fiscal 2019 was \$6.48 billion, up from \$5.34 billion in fiscal 2018 and representing 21% year-over-year growth. Document Cloud revenue in fiscal 2019 was \$1.22 billion, up from \$981.8 million in fiscal 2018 and representing 25% year-over-year revenue growth. Total Digital Media segment revenue grew to \$7.71 billion in fiscal 2019, up from \$6.33 billion in fiscal 2018 and representing 22% year-over-year growth.

We are a market leader in the fast-growing category addressed by our Digital Experience segment. Our Digital Experience business provides comprehensive solutions that include analytics, targeting, media optimization, digital experience management, cross-channel campaign management, marketing automation, audience management, commerce, premium video delivery and monetization. These comprehensive solutions enable marketers to measure, personalize and optimize marketing campaigns and digital experiences across channels for optimal marketing performance.

During fiscal 2019, our hierarchy of solutions in the Digital Experience segment consisted of the following cloud offerings:

- Adobe Advertising Cloud—delivers an end-to-end platform for managing advertising across traditional TV and digital formats, and simplifies the delivery of video, display and search advertising across channels and screens.
- Adobe Analytics Cloud—enables businesses to move from insights to actions in real time by uniquely integrating audiences as the core system of intelligence for the enterprise; makes data available across all Adobe clouds through the capture, aggregation, rationalization and understanding of vast amounts of disparate data and then translating that data into singular customer profiles; includes Adobe Analytics and Adobe Audience Manager.
- Adobe Marketing Cloud—provides an integrated set of solutions to help marketers differentiate their brands and engage their customers, helping businesses manage, personalize, and orchestrate campaigns and customer journeys; includes Adobe Experience Manager (“AEM”), Adobe Campaign, Adobe Target, Marketo Engage and Adobe Primetime.
- Adobe Commerce Cloud—provides digital commerce, order management and predictive intelligence based on a unified commerce platform enabling shopping experiences across a wide array of industries; includes Magento Commerce.

In addition to chief marketing officers, chief revenue officers and digital marketers, users of our Digital Experience solutions include advertisers, campaign managers, publishers, data analysts, content managers, social marketers, marketing executives and information management and technology executives. These customers often are involved in workflows that utilize other Adobe products, such as our Digital Media offerings. By combining the creativity of our Digital Media business with the science of our Digital Experience business, we help our customers to more efficiently and effectively make, manage, measure and monetize their content across every channel with an end-to-end workflow and feedback loop.

We utilize a direct sales force to market and license our Digital Experience solutions, as well as an extensive ecosystem of partners, including marketing agencies, systems integrators and independent software vendors that help license and deploy our solutions to their customers. We have made significant investments to broaden the scale and size of all of these routes to market, and our recent financial results reflect the success of these investments.

We achieved record Digital Experience revenue of \$3.21 billion in fiscal 2019, up from \$2.44 billion in fiscal 2018 which represents 31% year-over-year growth. Driving this increase was the increase in subscription revenue across our offerings which grew to \$2.67 billion in fiscal 2019 from \$1.95 billion in fiscal 2018, representing 37% year-over-year growth. Largely contributing to the increase in Digital Experience subscription revenue was revenue associated with Marketo Engage. To a lesser extent, subscription revenue associated with Magento Commerce and Adobe Experience Manager also contributed to the overall increase. We expect that continued demand across our portfolio of Adobe Experience Cloud solutions, including new offerings and enhancements to existing solutions, will drive revenue growth in future years.

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Our financial results for fiscal 2019 are presented in accordance with the new revenue standard that was adopted under the modified retrospective method at the beginning of fiscal 2019. Prior period results have not been restated which limits the comparability of our results of operations for fiscal 2019 when compared to the year-ago period. See Note 2 of our Notes to Consolidated Financial Statements for information regarding adoption of the new revenue standard.

Financial Performance Summary for Fiscal 2019

- Total Digital Media ARR of approximately \$8.40 billion as of November 29, 2019 increased by \$1.69 billion, or 25%, from \$6.71 billion as of November 30, 2018. The change in our Digital Media ARR was primarily due to stronger new user adoption of our Creative Cloud and Adobe Document Cloud offerings.
- Creative revenue of \$6.48 billion increased by \$1.14 billion, or 21%, during fiscal 2019, from \$5.34 billion in fiscal 2018. The increase was primarily due to the increase in subscription revenue associated with our Creative Cloud offerings.
- Digital Experience revenue of \$3.21 billion increased by \$762.4 million, or 31%, during fiscal 2019, from \$2.44 billion in fiscal 2018. The increase was primarily due to the increase in subscription revenue driven by the addition of Marketo and Magento, which we acquired in the later part of fiscal 2018.
- Our total deferred revenue of \$3.50 billion as of November 29, 2019 increased by \$447.1 million, or 15%, from \$3.05 billion as of November 30, 2018. The increase was primarily due to increases in new contracts and the timing of renewals for offerings with cloud-enabled services and hosted services.
- Cost of revenue of \$1.67 billion increased by \$477.7 million, or 40%, during fiscal 2019, from \$1.19 billion in fiscal 2018. The increase was primarily due to increases in amortization of intangibles from our acquisition of Magento and Marketo in the later part of fiscal 2018. To a lesser extent, increases in hosting services and data center costs also contributed to the overall increase in cost of revenue.
- Operating expenses of \$6.23 billion increased by \$1.24 billion, or 25%, during fiscal 2019, from \$4.99 billion in fiscal 2018. The increase was primarily due to increases in base compensation and related benefits costs and stock-based compensation expense associated with headcount growth, including additions from the acquisitions of Magento and Marketo in the later part of fiscal 2018. To a lesser extent, increases in marketing spend also contributed to the overall increase in operating expenses.
- Net income of \$2.95 billion increased by \$360.7 million, or 14%, during fiscal 2019 from \$2.59 billion in fiscal 2018 primarily due to increases in revenue and offset in part by the increases in operating expenses and cost of revenue.
- Net cash flow from operations of \$4.42 billion during fiscal 2019 increased by \$392.5 million, or 10%, from \$4.03 billion during fiscal 2018 primarily due to higher net income adjusted for the net effect of non-cash items. This increase was offset in part by comparatively lower increases in income taxes payable and higher increases in prepaid expenses and other assets.

Revenue

(dollars in millions)	2019	2018	2017	% Change 2019-2018
Subscription	\$ 9,994.5	\$ 7,922.2	\$ 6,133.9	26%
Percentage of total revenue	89%	88%	84%	
Product	647.8	622.1	706.7	4%
Percentage of total revenue	6%	7%	10%	
Services and support	529.0	485.7	460.9	9%
Percentage of total revenue	5%	5%	6%	
Total revenue	<u>\$ 11,171.3</u>	<u>\$ 9,030.0</u>	<u>\$ 7,301.5</u>	<u>24%</u>

Subscription Revenue by Segment

Our subscription revenue is comprised primarily of fees we charge for our subscription and hosted service offerings including Creative Cloud and certain of our Digital Experience and Document Cloud services. We recognize subscription revenue ratably over the term of agreements with our customers, beginning with commencement of service.

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We have the following reportable segments: Digital Media, Digital Experience and Publishing. Subscription revenue by reportable segment for fiscal 2019, 2018 and 2017 is as follows:

(dollars in millions)	2019	2018	2017	% Change 2019-2018
Digital Media	\$ 7,208.3	\$ 5,857.7	\$ 4,480.8	23%
Digital Experience	2,670.7	1,949.3	1,552.5	37%
Publishing	115.5	115.2	100.6	*
Total subscription revenue	\$ 9,994.5	\$ 7,922.2	\$ 6,133.9	26%

(*) Percentage is less than 1%.

Our product revenue is primarily comprised of revenue from distinct on-premise software licenses recognized at a point in time and certain of our OEM and royalty agreements. Our services and support revenue is comprised of consulting, training and maintenance and support, primarily related to the licensing of our enterprise offerings and the sale of our hosted Digital Experience services. Our support revenue also includes technical support and developer support to partners and developer organizations related to our desktop products. Our maintenance and support offerings, which entitle customers to receive desktop product upgrades and enhancements or technical support, depending on the offering, are generally recognized ratably over the term of the arrangement.

Segments

In fiscal 2019, we categorized our products into the following reportable segments:

- *Digital Media*—Our Digital Media segment provides tools and solutions that enable individuals, teams and enterprises to create, publish, promote and monetize their digital content anywhere. Our customers include content creators, experience designers, app developers, enthusiasts, students, social media users and creative professionals, as well as marketing departments and agencies, companies and publishers. Our customers also include knowledge workers who create, collaborate on and distribute documents and creative content.
- *Digital Experience*—Our Digital Experience segment provides products, services and solutions for creating, managing, executing, measuring, monetizing and optimizing customer experiences from advertising to commerce. Our customers include marketers, advertisers, agencies, publishers, merchandisers, merchants, web analysts, data scientists, developers, marketing executives, information management and technology executives, product development executives, and sales and support executives.
- *Publishing*—Our Publishing segment addresses market opportunities ranging from the diverse authoring and publishing needs of technical and business publishing to our legacy type and OEM printing businesses. It also includes our web conferencing and document and forms platforms.

Segment Information

(dollars in millions)	2019	2018	2017	% Change 2019-2018
Digital Media	\$ 7,707.0	\$ 6,325.3	\$ 5,010.6	22 %
Percentage of total revenue	69%	70%	69%	
Digital Experience	3,206.2	2,443.7	2,030.3	31 %
Percentage of total revenue	29%	27%	28%	
Publishing	258.1	261.0	260.6	(1)%
Percentage of total revenue	2%	3%	3%	
Total revenue	\$ 11,171.3	\$ 9,030.0	\$ 7,301.5	24 %

Digital Media

Revenue from Digital Media increased \$1.38 billion during fiscal 2019 as compared to fiscal 2018, driven by increases in revenue associated with our Creative and Document Cloud offerings. Revenue associated with our Creative offerings, which includes our Creative Cloud, perpetually licensed Creative and stock photography offerings, increased during fiscal 2019. The increase was primarily due to an increase in subscription revenue across all of our Creative Cloud offerings driven by increases in net new subscriptions. Adobe Document Cloud revenue, which includes our Acrobat product family and Adobe Sign service, increased during fiscal 2019 as compared to fiscal 2018 primarily due to increases in subscription revenue driven by strong adoption of our Document Cloud.

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Digital Experience

Revenue from Digital Experience increased \$762.5 million during fiscal 2019, as compared to fiscal 2018 primarily due to subscription revenue growth across our Experience Cloud offerings. Largely contributing to the subscription revenue increases were revenue associated with Marketo Engage, which we acquired in the fourth quarter of fiscal 2018, and revenue associated with our Magento Commerce offerings. Also contributing to the subscription revenue growth were increases in our AEM and Campaign offerings.

Geographical Information

(dollars in millions)	2019	2018	2017	% Change 2019-2018
Americas	\$ 6,505.9	\$ 5,116.8	\$ 4,216.5	27%
Percentage of total revenue	58%	57%	58%	
EMEA	2,975.2	2,550.0	1,985.1	17%
Percentage of total revenue	27%	28%	27%	
APAC	1,690.2	1,363.2	1,099.9	24%
Percentage of total revenue	15%	15%	15%	
Total revenue	<u>\$ 11,171.3</u>	<u>\$ 9,030.0</u>	<u>\$ 7,301.5</u>	<u>24%</u>

Overall revenue during fiscal 2019 increased in all geographic regions as compared to fiscal 2018 primarily due to increases in Digital Media and Digital Experience revenue. Within each geographic region, the fluctuations in revenue by reportable segment were attributable to the factors noted in the segment information above.

Included in the overall change in revenue for fiscal 2019 and fiscal 2018 were impacts associated with foreign currency as shown below. Our cash flow hedging program is used to mitigate a portion of the foreign currency impact to revenue.

(in millions)	2019	2018
	Increase/(Decrease)	
Revenue impact:		
Euro	\$ (73.2)	\$ 96.3
Australian Dollar	(27.2)	(0.7)
British Pound	(27.0)	21.6
Japanese Yen	2.3	2.8
Other currencies	(12.9)	2.6
Total revenue impact	(138.0)	122.6
Hedging impact:		
Euro	30.3	29.1
British Pound	8.2	11.3
Japanese Yen	1.4	8.2
Total hedging impact	39.9	48.6
Total impact	<u>\$ (98.1)</u>	<u>\$ 171.2</u>

During fiscal 2019, the U.S. Dollar strengthened against EMEA and other currencies, which decreased revenue in U.S. Dollar equivalents. The foreign currency impact to revenue was offset in part by hedging gains primarily from our EMEA currencies cash flow hedging programs during fiscal 2019.

See Note 2 of our Notes to Consolidated Financial Statements for additional details of revenue by geography.

Backlog

Adoption of the new revenue standard resulted in changes to our measurement of unbilled backlog starting in fiscal 2019 such that orders with a right of termination and unbilled amounts recognized as revenue under the new revenue standard are not included in our unbilled backlog, consistent with our measurement of remaining performance obligations. Our unbilled backlog represents expected future billings not yet recognized in revenue that are contractually committed under our existing subscription agreements. As of November 29, 2019, we had unbilled backlog of \$6.38 billion, which excludes amounts cancellable without substantive penalty. Approximately \$2.61 billion of our unbilled backlog is not reasonably expected to be recognized during fiscal

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2020. As of November 30, 2018, we had unbilled backlog of approximately \$5.05 billion, which was measured under the accounting standard in effect for that period.

We expect that the amount of unbilled backlog will change from period to period due to certain factors, including the timing and duration of large customer subscription agreements, varying billing cycles of these agreements, timing of customer renewals, timing of revenue recognition, changes in customer financial circumstances and foreign currency fluctuations. Our presentation of unbilled backlog may differ from that of other companies in the industry.

Cost of Revenue

(dollars in millions)	2019	2018	2017	% Change 2019-2018
Subscription	\$ 1,222.5	\$ 807.2	\$ 623.0	51 %
Percentage of total revenue	11%	9%	9%	
Product	39.6	46.0	57.1	(14)%
Percentage of total revenue	*	1%	1%	
Services and support	410.6	341.8	330.4	20 %
Percentage of total revenue	4%	4%	5%	
Total cost of revenue	\$ 1,672.7	\$ 1,195.0	\$ 1,010.5	40 %

(*) Percentage is less than 1%

Subscription

Cost of subscription revenue consists of third-party royalties and expenses related to operating our network infrastructure, including depreciation expense and operating lease payments associated with computer equipment, data center costs, salaries and related expenses of network operations, implementation, account management and technical support personnel, amortization of certain intangible assets and allocated overhead. We enter into contracts with third parties for hosting services and use of data center facilities. Our data center costs largely consist of the amounts we pay to these third parties for rack space, power and similar items. Cost of subscription revenue also includes media costs related to impressions purchased from third-party ad inventory sources for our Adobe Advertising Cloud offerings.

Cost of subscription revenue increased due to the following:

	Components of % Change 2019-2018
Amortization of intangibles	17%
Hosting services and data center costs	12
Media rebill costs	7
Royalty costs	4
Incentive compensation, cash and stock-based	4
Base compensation and related benefits associated with headcount	3
Various individually insignificant items	4
Total change	51%

Amortization of intangibles increased during fiscal 2019 as compared to fiscal 2018 primarily due to amortization of intangible assets purchased through our acquisitions of Magento and Marketo in fiscal 2018.

Product

Cost of product revenue includes product packaging, third-party royalties, excess and obsolete inventory, amortization of intangibles and the costs associated with the manufacturing of our products.

Cost of product revenue decreased during fiscal 2019 as compared to fiscal 2018 primarily due to decreases in localization costs.

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Services and Support

Cost of services and support revenue is primarily comprised of employee-related costs and associated costs incurred to provide consulting services, training and product support.

Cost of services and support revenue increased due to the following:

	Components of % Change 2019-2018
Incentive compensation, cash and stock-based	10%
Base compensation and related benefits associated with headcount	7
Various individually insignificant items	3
Total change	<u><u>20%</u></u>

Operating Expenses

(dollars in millions)	2019	2018	2017	% Change 2019-2018
Research and development	\$ 1,930.2	\$ 1,537.8	\$ 1,224.1	26%
Percentage of total revenue	17%	17%	17%	
Sales and marketing	3,244.4	2,620.8	2,197.6	24%
Percentage of total revenue	29%	29%	30%	
General and administrative	880.6	744.9	624.7	18%
Percentage of total revenue	8%	8%	9%	
Amortization of intangibles	175.3	91.1	76.5	92%
Percentage of total revenue	2%	1%	1%	
Total operating expenses	<u><u>\$ 6,230.5</u></u>	<u><u>\$ 4,994.6</u></u>	<u><u>\$ 4,122.9</u></u>	<u><u>25%</u></u>

Research and Development

Research and development expenses consist primarily of salary and benefit expenses for software developers, contracted development efforts, related facilities costs and expenses associated with computer equipment used in software development.

Research and development expenses increased due to the following:

	Components of % Change 2019-2018
Incentive compensation, cash and stock-based	11%
Base compensation and related benefits associated with headcount	8
Professional and consulting fees	4
Various individually insignificant items	3
Total change	<u><u>26%</u></u>

We believe that investments in research and development, including the recruiting and hiring of software developers, are critical to remain competitive in the marketplace and are directly related to continued timely development of new and enhanced offerings and solutions. We will continue to focus on long-term opportunities available in our end markets and make significant investments in the development of our subscription and service offerings, applications and tools.

Sales and Marketing

Sales and marketing expenses consist primarily of salary and benefit expenses, amortization of contract acquisitions costs including sales commissions, travel expenses and related facilities costs for our sales, marketing, order management and global supply chain management personnel. Sales and marketing expenses also include the costs of programs aimed at increasing revenue, such as advertising, trade shows, public relations and other market development programs.

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Sales and marketing expenses increased due to the following:

	Components of % Change 2019-2018
Marketing spending related to campaigns, events and overall marketing efforts	8%
Base compensation and related benefits associated with headcount	7
Incentive compensation, cash and stock-based	3
Professional and consulting fees	2
Amortization of contract acquisition costs, including sales commissions	2
Various individually insignificant items	2
Total change	24%

General and Administrative

General and administrative expenses consist primarily of compensation and benefit expenses, travel expenses and related facilities costs for our finance, facilities, human resources, legal, information services and executive personnel. General and administrative expenses also include outside legal and accounting fees, provision for bad debts, expenses associated with computer equipment and software used in the administration of the business, charitable contributions and various forms of insurance.

General and administrative expenses increased due to the following:

	Components of % Change 2019-2018
Professional and consulting fees	4%
Facilities and telecom	4
Incentive compensation, cash and stock-based	4
Base compensation and related benefits associated with headcount	3
Software licenses	2
Various individually insignificant items	1
Total change	18%

Amortization of Intangibles

During the last several years, we have completed a number of business combinations and asset acquisitions. As a result of these acquisitions, we purchased intangible assets that are being amortized over their estimated useful lives ranging from one to fifteen years.

Amortization expense increased during fiscal 2019 as compared to fiscal 2018 primarily due to amortization of intangible assets purchased through our acquisitions of Magento and Marketo in the later part of fiscal 2018 and partially offset by certain fully amortized acquired intangible assets from previous acquisitions.

Non-Operating Income (Expense), Net

(dollars in millions)

	2019	2018	2017	% Change 2019-2018
Interest and other income (expense), net	\$ 42.2	\$ 39.5	\$ 36.4	**
Percentage of total revenue	*	*	*	
Interest expense	(157.2)	(89.2)	(74.4)	76%
Percentage of total revenue	(1)%	(1)%	(1)%	
Investment gains (losses), net	51.6	3.2	7.5	**
Percentage of total revenue	*	*	*	
Total non-operating income (expense), net	\$ (63.4)	\$ (46.5)	\$ (30.5)	36%

(*) Percentage is less than 1%.

(**) Percentage is not meaningful.

Interest and Other Income (Expense), Net

Interest and other income (expense), net consists primarily of interest earned on cash, cash equivalents and short-term fixed income investments. Interest and other income (expense), net also includes gains and losses on fixed income investments and foreign exchange gains and losses.

Interest Expense

Interest expense primarily represents interest associated with our Term Loan, senior notes and interest rate swaps. In October 2018, we entered into a credit agreement providing for a \$2.25 billion senior unsecured term loan for the purpose of partially funding the purchase price for our acquisition of Marketo. Interest on our Term Loan is payable periodically at the end of each interest period, whereas interest on our senior notes is payable semi-annually, in arrears, on February 1 and August 1. Floating interest payments on the interest rate swaps are paid monthly. The fixed-rate interest receivable on the swaps is received semi-annually concurrent with the senior notes interest payments. *See Notes 6 and 17 of our Notes to Consolidated Financial Statements for further details regarding our interest rate swaps and debt, respectively.*

Interest expense increased during fiscal 2019 as compared to fiscal 2018 primarily due to interest on our Term Loan which was entered into in the fourth quarter of fiscal 2018.

Investment Gains (Losses), Net

Investment gains (losses), net consists principally of unrealized holding gains and losses associated with our deferred compensation plan assets which are classified as trading securities, and gains and losses associated with our direct and indirect investments in privately held companies.

Investment gains increased during fiscal 2019 as compared to fiscal 2018 primarily due to the gain recognized upon our acquisition of the remaining interest in Allegorithmic in January 2019, which was accounted for as an equity-method investment immediately before the acquisition. *See Note 3 of our Notes to Consolidated Financial Statements for further details regarding our acquisition of Allegorithmic.*

Provision for Income Taxes

(dollars in millions)	2019	2018	2017	% Change 2019-2018	% Change 2018-2017
Provision	\$ 253.3	\$ 203.1	\$ 443.7	25%	(54)%
Percentage of total revenue	2%	2%	6%		
Effective tax rate	8%	7%	21%		

Our effective tax rate increased by approximately one percentage point during fiscal 2019 as compared to fiscal 2018. The effective tax rate for fiscal 2019 included U.S. federal and state taxes associated with our current year international earnings resulting from the international provisions of the Tax Cuts and Jobs Act (“Tax Act”) effective this year and for additional foreign taxation on our foreign operations. This increase was offset in part by the provisional accounting expense recorded in the prior year for the effects of the Tax Act adoption.

Our effective tax rate decreased by approximately 14 percentage points during fiscal 2018 as compared to fiscal 2017. The lower effective tax rate was primarily due to the effects of the Tax Act enacted on December 22, 2017, which included the reduction in the statutory federal corporate income tax rate from 35% to 21% effective on January 1, 2018, and a related change to our corporate tax structure from which we serve our foreign customers that provided us the ability to deduct more expenses against our earnings in the U.S.

Beginning in our fiscal 2019, the annual statutory federal corporate tax rate is 21% and certain international provisions of the Tax Act, such as a tax on global intangible low-tax income, a base erosion and anti-abuse tax and a special tax deduction for foreign-derived intangible income, took effect. The U.S. Treasury Department has issued proposed regulations that could impact the calculation of taxes related to these provisions and which are anticipated to be applicable on a retroactive basis. While the Company continues to evaluate the impact, such regulations have not been finalized and are subject to change. We will account for new regulations in the period of enactment.

We recognize deferred tax assets to the extent that we believe these assets are more likely than not to be realized. In making such a determination, we considered all available positive and negative evidence, including our past operating results, forecasted earnings, future taxable income and prudent and feasible tax planning strategies. On the basis of this evaluation, we continue to maintain a valuation allowance related primarily to the realizability of state and foreign credits. Total valuation allowance was \$244.4 million as of November 29, 2019.

We are a United States-based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. A significant portion of our foreign earnings for the current fiscal year were earned by our Irish subsidiaries. The Tax Act provides an exemption from federal income taxes for distributions from foreign subsidiaries made after December 31, 2017, including certain earnings that were not subject to the one-time transition or global intangible low-tax income tax. As we repatriate the undistributed foreign earnings for use in the U.S., the distributions will generally not be subject to further U.S. federal tax.

Subsequent to November 29, 2019, final and proposed tax regulations were issued that are applicable to Adobe. We are currently evaluating the impact of these enacted and issued regulations, but we do not anticipate they will have a material impact to our fiscal 2020 operating results.

The Tax Act included certain international provisions effective for us starting in fiscal 2019. As discussed in Part 1. Item 1A. Risk Factors, the applicability and impact of these new tax provisions, and of other international tax law changes effective for fiscal 2020 and beyond, will likely require us to respond by making change(s) to our international trading structure. The net impact of such change(s) is uncertain but is anticipated to adversely affect our effective income tax rate and cash flows in years beyond fiscal 2020.

See Note 10 of our Notes to Consolidated Financial Statements for further information on our provision for income taxes.

Accounting for Uncertainty in Income Taxes

The gross liabilities for unrecognized tax benefits excluding interest and penalties were \$173.3 million, \$196.2 million and \$172.9 million for fiscal 2019, 2018 and 2017, respectively. If the total unrecognized tax benefits at November 29, 2019, November 30, 2018 and December 1, 2017 were recognized, \$127.0 million, \$145.2 million and \$135.0 million would decrease the respective effective tax rates.

The combined amount of accrued interest and penalties related to tax positions taken on our tax returns were approximately \$25.1 million and \$24.6 million for fiscal 2019 and 2018, respectively. These amounts were included in long-term income taxes payable in their respective years.

The timing of the resolution of income tax examinations is highly uncertain as are the amounts and timing of tax payments that are part of any audit settlement process. These events could cause large fluctuations in the balance sheet classification of our tax assets and liabilities. We believe that within the next 12 months, it is reasonably possible that either certain audits will conclude or statutes of limitations on certain income tax examination periods will expire, or both. Given the uncertainties described above, we can only determine a range of estimated potential decreases in underlying unrecognized tax benefits ranging from \$0 to approximately \$20 million.

In addition, in countries where we conduct business and in jurisdictions in which we are subject to tax, including those covered by governing bodies that enact tax laws applicable to us, such as the European Commission of the European Union, we are subject to potential changes in relevant tax, accounting and other laws, regulations and interpretations, including changes to tax laws applicable to corporate multinationals such as Adobe. These countries, other governmental bodies and intergovernmental economic organizations such as the Organization for Economic Cooperation and Development, have or could make unprecedented assertions about how taxation is determined in their jurisdictions that are contrary to the way in which we have interpreted and historically applied the rules and regulations described above in our income tax returns filed in such jurisdictions. In the current global tax policy environment, any changes in laws, regulations and interpretations related to these assertions could adversely affect our effective tax rates or result in other costs to us which could adversely affect our operations and financial results.

Moreover, we are subject to the continual examination of our income tax returns by the IRS and other domestic and foreign tax authorities. These tax examinations are expected to focus on our intercompany transfer pricing practices as well as other matters. 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 adjustments that may result from these examinations. We cannot provide assurance that the final determination of any of these examinations will not have an adverse effect on our operating results and financial position.

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LIQUIDITY AND CAPITAL RESOURCES

This data should be read in conjunction with our Consolidated Statements of Cash Flows.

(in millions)	As of	
	November 29, 2019	November 30, 2018
Cash and cash equivalents	\$ 2,650.2	\$ 1,642.8
Short-term investments	\$ 1,526.8	\$ 1,586.2
Working capital	\$ (1,696.0)	\$ 555.9
Stockholders' equity	\$ 10,530.2	\$ 9,362.1

Working Capital

Working capital as of November 29, 2019 and November 30, 2018 was \$1.70 billion of a deficit and \$555.9 million of a surplus, respectively. The decrease was primarily due to the reclassification of \$3.15 billion total carrying value of our \$2.25 billion term loan due April 30, 2020 (“Term Loan”) and \$900 million 4.75% senior notes due February 1, 2020 (“2020 Notes”) to current liabilities. We intend to refinance our Term Loan and 2020 Notes on or before the due dates.

A summary of our cash flows is as follows:

(in millions)	2019	2018	2017
Net cash provided by operating activities	\$ 4,421.8	\$ 4,029.3	\$ 2,912.9
Net cash used for investing activities	(455.6)	(4,685.3)	(442.9)
Net cash used for financing activities	(2,946.1)	(5.6)	(1,183.7)
Effect of foreign currency exchange rates on cash and cash equivalents	(12.7)	(1.7)	8.5
Net increase (decrease) in cash and cash equivalents	\$ 1,007.4	\$ (663.3)	\$ 1,294.8

Our primary source of cash is receipts from revenue and, to a lesser extent, proceeds from participation in the employee stock purchase plan. The primary uses of cash are our stock repurchase program as described below, payroll-related expenses, general operating expenses including marketing, travel and office rent, and cost of revenue. Other uses of cash include business acquisitions, purchases of property and equipment and payments for taxes related to net share settlement of equity awards.

Cash Flows from Operating Activities

For fiscal 2019, net cash provided by operating activities of \$4.42 billion was primarily comprised of net income adjusted for the net effect of non-cash items. The primary working capital sources of cash were net income coupled with an increase in deferred revenue, which was offset in large part by cash outflows due to an increase in prepaid expenses and other assets. The increase in deferred revenue was primarily driven by increases related to Digital Media offerings with cloud-enabled services and Digital Experience hosted services. The primary working capital use of cash was due to increases in prepaid expenses with certain vendors, sales commissions paid and capitalized, advanced payments related to income taxes and increase in long-term contract assets.

Cash Flows from Investing Activities

For fiscal 2019, net cash used for investing activities of \$455.6 million was primarily due to purchases of property and equipment and our acquisition of the remaining equity interest in Allegorithmic. These cash outflows were offset primarily by proceeds from sales and maturities of short-term investments, net of purchases. *See Note 3 of our Notes to Consolidated Financial Statements for more detailed information regarding our acquisitions.*

Cash Flows from Financing Activities

For fiscal 2019, net cash used for financing activities was \$2.95 billion primarily due to payments for our treasury stock repurchases and taxes related to net share settlement of equity awards, which were offset by proceeds from re-issuance of treasury stock for our employee stock purchase plan. *See the section titled “Stock Repurchase Program” discussed below.*

We expect to continue our investing activities, including short-term and long-term investments, facilities expansion and purchases of computer systems for research and development, sales and marketing, product support and administrative staff. Furthermore, cash reserves may be used to repurchase stock under our stock repurchase program and to strategically acquire companies, products or technologies that are complementary to our business.

Other Liquidity and Capital Resources Considerations

Our existing cash, cash equivalents and investment balances may fluctuate during fiscal 2020 due to changes in our planned cash outlay, including changes in incremental costs such as direct costs and integration costs related to our acquisitions.

Cash from operations could also be affected by various risks and uncertainties, including, but not limited to, the risks detailed in Part I, Item 1A titled “Risk Factors.” However, based on our current business plan and revenue prospects, we believe that our existing cash, cash equivalents and investment balances, our anticipated cash flows from operations and our available credit facility will be sufficient to meet our working capital and operating resource expenditure requirements for the next twelve months.

We have a \$1 billion senior unsecured revolving credit agreement (“Revolving Credit Agreement”) with a syndicate of lenders, providing for loans to us and certain of our subsidiaries through October 17, 2023. As of November 29, 2019, there were no outstanding borrowings under this credit agreement and the entire \$1 billion credit line remains available for borrowing.

As of November 29, 2019, we have a \$2.25 billion Term Loan outstanding and \$1.9 billion senior notes outstanding, consisting of our 2020 Notes and \$1 billion of 3.25% senior notes due February 1, 2025 (the “2025 Notes,” and together with the 2020 Notes, the “Notes”). The Notes and Term Loan rank equally with our other unsecured and unsubordinated indebtedness.

During the first quarter of fiscal 2019, we reclassified the 2020 Notes as current debt in our Consolidated Balance Sheets. During the second quarter of fiscal 2019, we reclassified the Term Loan as current debt in our Consolidated Balance Sheets. As of November 29, 2019, the carrying value of the 2020 Notes was \$899.6 million which includes the fair value of the related interest rate swap and is net of debt issuance costs, and the carrying value of the Term Loan was \$2.25 billion, net of unamortized original issuance discount. We intend to refinance the Term Loan and 2020 Notes on or before the due dates.

During the third quarter of fiscal 2019, in anticipation of refinancing our Term Loan and 2020 Notes, we entered into Treasury lock agreements with large financial institutions which fixed benchmark U.S. Treasury rates for an aggregate notional amount of \$1 billion of our future debt issuance. These derivative instruments hedge the impact of changes in the benchmark interest rate to future interest payments and will be terminated upon debt issuance.

Our short-term investment portfolio is primarily invested in corporate debt securities, asset-backed securities, municipal securities and U.S. Treasury securities. We use professional investment management firms to manage a large portion of our investment portfolio.

Stock Repurchase Program

To facilitate our stock repurchase program, designed to return value to our stockholders and minimize dilution from stock issuances, we may repurchase shares in the open market or enter into structured repurchase agreements with third parties. In May 2018, our Board of Directors granted us an authority to repurchase up to \$8 billion in common stock through the end of fiscal 2021.

During fiscal 2019, 2018 and 2017, we entered into several structured stock repurchase agreements with large financial institutions, whereupon we provided them with prepayments totaling \$2.75 billion, \$2.05 billion, and \$1.10 billion, respectively. We enter into these agreements in order to take advantage of repurchasing shares at a guaranteed discount to the Volume Weighted Average Price (“VWAP”) of our common stock over a specified period of time. We only enter into such transactions when the discount that we receive is higher than the expected foregone return on our cash prepayments to the financial institutions. There were no explicit commissions or fees on these structured repurchases. Under the terms of the agreements, there is no requirement for the financial institutions to return any portion of the prepayment to us.

The financial institutions agree to deliver shares to us at monthly intervals during the contract term. The parameters used to calculate the number of shares deliverable are: the total notional amount of the contract, the number of trading days in the contract, the number of trading days in the interval and the average VWAP of our stock during the interval less the agreed upon discount.

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The following is a summary of our structured stock repurchases executed with large financial institutions during fiscal 2019, 2018, and 2017:

(shares in thousands and total cost in millions)

Board approval dates	2019		2018		2017	
	Shares	Average per share	Shares	Average per share	Shares	Average per share
January 2015	—	\$ —	—	\$ —	4,263	\$ 118.00
January 2017	—	\$ —	8,686	\$ 230.43	3,923	\$ 151.80
May 2018	9,883	\$ 270.23	—	\$ —	—	\$ —
Total shares	9,883	\$ 270.23	8,686	\$ 230.43	8,186	\$ 134.20
Total cost		\$2,671		\$2,002		\$1,099

For fiscal 2019, 2018 and 2017, the prepayments were classified as treasury stock on our Consolidated Balance Sheets at the payment date, though only shares physically delivered to us by November 29, 2019, November 30, 2018 and December 1, 2017 were excluded from the computation of earnings per share. As of November 29, 2019, \$229.2 million of prepayments remained under the agreement.

Subsequent to November 29, 2019, we entered into a structured stock repurchase agreement with a large financial institution whereupon we provided them with a prepayment of \$850 million. This amount will be classified as treasury stock on our Consolidated Balance Sheets. Upon completion of the \$850 million stock repurchase agreement, \$4.25 billion remains under our May 2018 authority.

See Item 5, Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities for share repurchases during the quarter ended November 29, 2019.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Our principal commitments as of November 29, 2019 consist of obligations under operating leases, royalty agreements and various service agreements. *See Note 16 of our Notes to Consolidated Financial Statements for additional information regarding our contractual commitments.*

Contractual Obligations

The following table summarizes our contractual obligations as of November 29, 2019:

(in millions)	Payment Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Term Loan and Notes, including interest	\$ 4,373.3	\$ 3,227.0	\$ 65.0	\$ 65.0	\$ 1,016.3
Operating lease obligations, net	711.5	88.7	158.0	126.9	337.9
Purchase obligations	2,036.5	545.0	935.8	555.7	—
Total	\$ 7,121.3	\$ 3,860.7	\$ 1,158.8	\$ 747.6	\$ 1,354.2

As of November 29, 2019, our Term Loan's carrying value was \$2.25 billion. At our election, the Term Loan will bear interest at either (i) the London Interbank Offered Rate ("LIBOR") plus a margin, based on our debt ratings, ranging from 0.500% to 1.000% or (ii) a base rate plus a margin, based on our debt ratings, ranging from 0.040% to 0.110%. Interest is payable periodically, in arrears, at the end of each interest period we elect. Based on the LIBOR rate at November 29, 2019, our estimated maximum commitment for interest payments was \$23.2 million for the remaining duration of the Term Loan.

As of November 29, 2019, the carrying value of our Notes payable was \$1.89 billion. Interest on our Notes is payable semi-annually, in arrears on February 1 and August 1. At November 29, 2019, our maximum commitment for interest payments was \$200.1 million for the remaining duration of our Notes.

Our Term Loan and Revolving Credit Agreement contain similar financial covenants requiring us not to exceed a maximum leverage ratio. As of November 29, 2019, we were in compliance with this covenant. We believe this covenant will not impact our credit or cash in the coming fiscal year or restrict our ability to execute our business plan. Our senior notes do not contain any financial covenants.

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Under the terms of our Term Loan and Revolving Credit Agreement, we are not prohibited from paying cash dividends unless payment would trigger an event of default or if one currently exists. We do not anticipate paying any cash dividends in the foreseeable future.

Transition Taxes Liability

As a result of the Tax Act enacted on December 22, 2017, an accrued transition tax liability of approximately \$427.1 million as of November 29, 2019 is payable in installments through fiscal 2026. The Tax Act provides an exemption from federal income taxes for distributions from foreign subsidiaries made after December 31, 2017, including certain earnings that were not subject to the one-time transition or global intangible low-tax income tax. As we repatriate the undistributed foreign earnings for use in the U.S., the distributions will generally not be subject to further U.S. federal tax.

Accounting for Uncertainty in Income Taxes

See Results of Operations - Provision for Income Taxes above and Note10 of our Notes to Consolidated Financial Statements for our discussion on accounting for uncertainty in income taxes.

Royalties

We have certain royalty commitments associated with the licensing of certain offerings. Royalty expense is generally based on a dollar amount per unit sold or a percentage of the underlying revenue.

Indemnifications

In the normal course of business, we provide indemnifications of varying scope to customers and channel partners against claims of intellectual property infringement made by third parties arising from the use of our products and from time to time, we are subject to claims by our customers under these indemnification provisions. Historically, costs related to these indemnification provisions have not been significant and we are unable to estimate the maximum potential impact of these indemnification provisions on our future results of operations.

To the extent permitted under Delaware law, we have agreements whereby we indemnify our directors and officers for certain events or occurrences while the director or officer is or was serving at our request in such capacity. The indemnification period covers all pertinent events and occurrences during the director's or officer's lifetime. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have director and officer insurance coverage that limits our exposure and enables us to recover a portion of any future amounts paid.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

All market risk sensitive instruments were entered into for non-trading purposes.

Foreign Currency Risk

Foreign Currency Exposures and Hedging Instruments

In countries outside the United States, we transact business in U.S. Dollars and various other currencies, which subject us to exposure from movements in exchange rates. We may use foreign exchange purchased options or forward contracts to hedge our foreign currency revenue. Additionally, we hedge our net recognized foreign currency monetary assets and liabilities with foreign exchange forward contracts. We hedge these exposures to reduce the risk that our earnings and cash flows will be adversely affected by changes in exchange rates.

Our significant foreign currency revenue exposures for fiscal 2019, 2018 and 2017 were as follows :

(in millions, except Japanese Yen)	2019	2018	2017
Euro	€ 1,603.2	€ 1,309.9	€ 1,044.7
Japanese Yen (in billions)	¥ 73.2	¥ 60.8	¥ 51.0
British Pounds	£ 503.3	£ 423.1	£ 338.4

As of November 29, 2019, the total absolute value of all outstanding foreign exchange contracts, including options and forwards, was \$1.90 billion, which included the notional equivalent of \$927.0 million in Euros, \$431.0 million in British Pounds, \$341.3 million in Japanese Yen and \$201.8 million in other foreign currencies. As of November 29, 2019, all contracts were set to expire at various dates through June 2020. The bank counterparties in these contracts could expose us to credit-related losses that would be largely mitigated with master netting arrangements with the same counterparty by permitting net settlement

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transactions. In addition, we enter into collateral security agreements that provide for collateral to be received or posted when the net fair value of these contracts fluctuates from contractually established thresholds.

A sensitivity analysis was performed on all of our foreign exchange derivatives as of November 29, 2019. This sensitivity analysis measures the hypothetical market value resulting from a 10% shift in the value of exchange rates relative to the U.S. Dollar. For option contracts, the Black-Scholes option pricing model was used. A 10% increase in the value of the U.S. Dollar and a corresponding decrease in the value of the hedged foreign currency asset would lead to an increase in the fair value of our financial hedging instruments by \$113.6 million. Conversely, a 10% decrease in the value of the U.S. Dollar would result in a decrease in the fair value of these financial instruments by \$33.4 million.

As a general rule, we do not use foreign exchange contracts to hedge local currency denominated operating expenses in countries where a natural hedge exists. For example, in many countries, revenue in the local currencies substantially offsets the local currency denominated operating expenses. We also have long-term investment exposures consisting of the capitalization and retained earnings in our non-U.S. Dollar functional currency foreign subsidiaries. As of November 29, 2019 and November 30, 2018, this long-term investment exposure totaled an absolute notional equivalent of \$385.2 million and \$292.3 million, respectively, with the year-over-year increase primarily driven by earnings growth. At this time, we do not hedge these long-term investment exposures.

We do not use foreign exchange contracts for speculative trading purposes, nor do we hedge our foreign currency exposure in a manner that entirely offsets the effects of changes in foreign exchange rates. We regularly review our hedging program and assess the need to utilize financial instruments to hedge currency exposures on an ongoing basis.

Cash Flow Hedges of Forecasted Foreign Currency Revenue

We may use foreign exchange purchased options or forward contracts to hedge foreign currency revenue denominated in Euros, British Pounds and Japanese Yen. We hedge these cash flow exposures to reduce the risk that our earnings and cash flows will be adversely affected by changes in exchange rates. These foreign exchange contracts, carried at fair value, may have maturities between one and twelve months. We enter into these foreign exchange contracts to hedge forecasted revenue in the normal course of business and accordingly, they are not speculative in nature.

We record changes in fair value of these cash flow hedges of foreign currency denominated revenue in accumulated other comprehensive income (loss) until the forecasted transaction occurs. When the forecasted transaction affects earnings, we reclassify the related gain or loss on the cash flow hedge to revenue. In the event the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, we reclassify the gain or loss on the related cash flow hedge from accumulated other comprehensive income (loss) to revenue. For the fiscal year ended November 29, 2019, there were no net gains or losses recognized in revenue relating to hedges of forecasted transactions that did not occur.

Non-Designated Hedges of Foreign Currency Assets and Liabilities

Our derivatives not designated as hedging instruments consist of foreign currency forward contracts that we primarily use to hedge monetary assets and liabilities denominated in non-functional currencies to reduce the risk that our earnings and cash flows will be adversely affected by changes in foreign currency exchange rates. These foreign exchange contracts are carried at fair value with changes in fair value of these contracts recorded to interest and other income (expense), net in our Consolidated Statements of Income. These contracts reduce the impact of currency exchange rate movements on our assets and liabilities. At November 29, 2019, the outstanding balance sheet hedging derivatives had maturities of 180 days or less.

See Note 6 of our Notes to Consolidated Financial Statements for information regarding our derivative financial instruments.

Interest Rate Risk

Short-Term Investments and Fixed Income Securities

At November 29, 2019, we had debt securities classified as short-term investments of \$1.53 billion. Changes in interest rates could adversely affect the market value of these investments. A sensitivity analysis was performed on our investment portfolio as of November 29, 2019. The analysis is based on an estimate of the hypothetical changes in market value of the portfolio that would result from an immediate parallel shift in the yield curve of various magnitudes.

The following tables present the hypothetical fair values of our debt securities classified as short-term investments assuming immediate parallel shifts in the yield curve of 50 basis points (“BPS”), 100 BPS and 150 BPS. The analysis is shown as of November 29, 2019 and November 30, 2018:

(dollars in millions)

-150 BPS		-100 BPS		-50 BPS		Fair Value 11/29/19		+50 BPS		+100 BPS		+150 BPS	
\$ 1,544.8		\$ 1,538.8		\$ 1,532.8		\$ 1,526.8		\$ 1,520.7		\$ 1,514.7		\$ 1,508.7	

-150 BPS		-100 BPS		-50 BPS		Fair Value 11/30/18		+50 BPS		+100 BPS		+150 BPS	
\$ 1,617.5		\$ 1,607.1		\$ 1,596.6		\$ 1,586.2		\$ 1,575.7		\$ 1,565.3		\$ 1,554.8	

Term Loan

As of November 29, 2019, our Term Loan’s carrying value was \$2.25 billion. At our election, the Term Loan will bear interest at either (i) LIBOR plus a margin, based on our debt ratings, ranging from 0.500% to 1.000% or (ii) a base rate plus a margin, based on our debt ratings, ranging from 0.040% to 0.110%. Interest is payable periodically, in arrears, at the end of each interest period we elect. An immediate hypothetical 50 basis points increase or decrease in market interest rates would not have a significant impact on our results of operations.

Senior Notes

As of November 29, 2019, the amount outstanding under our Notes was \$1.9 billion. In June 2014, we entered into interest rate swaps that effectively converted the fixed interest rate on our 2020 Notes to a floating interest rate based on LIBOR plus a fixed number of basis points through February 1, 2020. Accordingly, our exposure to fluctuations in market interest rates is on the hedged fixed-rate debt of \$900 million. An immediate hypothetical 50 basis points increase or decrease in market interest rates would not have a significant impact on our results of operations.

As of November 29, 2019, the total carrying amount of the Notes was \$1.89 billion and the related fair value based on observable market prices in less active markets was \$1.96 billion.

Cash Flow Hedges of Interest Rate Risk

In June 2019, in anticipation of refinancing our \$2.25 billion Term Loan due April 30, 2020 and \$900 million notes payable due February 1, 2020, we entered into Treasury lock agreements with large financial institutions which fixed benchmark U.S. Treasury rates for an aggregate notional amount of \$1 billion of our future debt issuance. These derivative instruments hedge the impact of changes in the benchmark interest rate to future interest payments and will be terminated upon closing of our anticipated refinancing. We record changes in the fair value of these cash flow hedges of interest rate risk in accumulated other comprehensive income (loss) until the anticipated refinancing. Upon refinancing and termination of the derivative instruments, their fair value will be amortized over the term of our new debt to interest expense.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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All financial statement schedules have been omitted, since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Consolidated Financial Statements and Notes thereto.

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ADOBE INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)

	November 29, 2019	November 30, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,650,221	\$ 1,642,775
Short-term investments	1,526,755	1,586,187
Trade receivables, net of allowances for doubtful accounts of \$9,650 and of \$14,981, respectively	1,534,809	1,315,578
Prepaid expenses and other current assets	783,140	312,499
Total current assets	6,494,925	4,857,039
Property and equipment, net	1,293,015	1,075,072
Goodwill	10,691,199	10,581,048
Other intangibles, net	1,720,565	2,069,001
Other assets	562,696	186,522
Total assets	\$ 20,762,400	\$ 18,768,682
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables	\$ 209,499	\$ 186,258
Accrued expenses	1,398,548	1,163,185
Debt	3,149,343	—
Deferred revenue	3,377,986	2,915,974
Income taxes payable	55,562	35,709
Total current liabilities	8,190,938	4,301,126
Long-term liabilities:		
Debt	988,924	4,124,800
Deferred revenue	122,727	137,630
Income taxes payable	616,102	644,101
Deferred income taxes	140,498	46,702
Other liabilities	173,056	152,209
Total liabilities	10,232,245	9,406,568
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.0001 par value; 2,000 shares authorized; none issued	—	—
Common stock, \$0.0001 par value; 900,000 shares authorized; 600,834 shares issued; 482,339 and 487,663 shares outstanding, respectively	61	61
Additional paid-in-capital	6,504,800	5,685,337
Retained earnings	14,828,562	11,815,597
Accumulated other comprehensive income (loss)	(188,034)	(148,130)
Treasury stock, at cost (118,495 and 113,171 shares, respectively), net of re-issuances	(10,615,234)	(7,990,751)
Total stockholders' equity	10,530,155	9,362,114
Total liabilities and stockholders' equity	\$ 20,762,400	\$ 18,768,682

See accompanying Notes to Consolidated Financial Statements.

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ADOBE INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	Years Ended		
	November 29, 2019	November 30, 2018	December 1, 2017
Revenue:			
Subscription	\$ 9,994,463	\$ 7,922,152	\$ 6,133,869
Product	647,788	622,153	706,767
Services and support	529,046	485,703	460,869
Total revenue	11,171,297	9,030,008	7,301,505
Cost of revenue:			
Subscription	1,222,520	807,221	623,048
Product	39,625	46,009	57,082
Services and support	410,575	341,769	330,361
Total cost of revenue	1,672,720	1,194,999	1,010,491
Gross profit	9,498,577	7,835,009	6,291,014
Operating expenses:			
Research and development	1,930,228	1,537,812	1,224,059
Sales and marketing	3,244,347	2,620,829	2,197,592
General and administrative	880,637	744,898	624,706
Amortization of intangibles	175,244	91,101	76,562
Total operating expenses	6,230,456	4,994,640	4,122,919
Operating income	3,268,121	2,840,369	2,168,095
Non-operating income (expense):			
Interest and other income (expense), net	42,255	39,536	36,395
Interest expense	(157,214)	(89,242)	(74,402)
Investment gains (losses), net	51,579	3,213	7,553
Total non-operating income (expense), net	(63,380)	(46,493)	(30,454)
Income before income taxes	3,204,741	2,793,876	2,137,641
Provision for income taxes	253,283	203,102	443,687
Net income	\$ 2,951,458	\$ 2,590,774	\$ 1,693,954
Basic net income per share	\$ 6.07	\$ 5.28	\$ 3.43
Shares used to compute basic net income per share	486,291	490,564	493,632
Diluted net income per share	\$ 6.00	\$ 5.20	\$ 3.38
Shares used to compute diluted net income per share	491,572	497,843	501,123

See accompanying Notes to Consolidated Financial Statements.

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ADOBE INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Years Ended		
	November 29, 2019	November 30, 2018	December 1, 2017
	Increase/(Decrease)		
Net income	\$ 2,951,458	\$ 2,590,774	\$ 1,693,954
Other comprehensive income (loss), net of taxes:			
Available-for-sale securities:			
Unrealized gains / losses on available-for-sale securities	29,409	(24,464)	(2,503)
Reclassification adjustment for recognized gains / losses on available-for-sale securities	124	10,650	(947)
Net increase (decrease) from available-for-sale securities	<u>29,533</u>	<u>(13,814)</u>	<u>(3,450)</u>
Derivatives designated as hedging instruments:			
Unrealized gains / losses on derivative instruments	294	74,080	6,917
Reclassification adjustment for realized gains / losses on derivative instruments	(44,334)	(48,981)	(31,973)
Net increase (decrease) from derivatives designated as hedging instruments	<u>(44,040)</u>	<u>25,099</u>	<u>(25,056)</u>
Foreign currency translation adjustments	(25,397)	(47,594)	90,287
Other comprehensive income (loss), net of taxes	<u>(39,904)</u>	<u>(36,309)</u>	<u>61,781</u>
Total comprehensive income, net of taxes	<u><u>\$ 2,911,554</u></u>	<u><u>\$ 2,554,465</u></u>	<u><u>\$ 1,755,735</u></u>

See accompanying Notes to Consolidated Financial Statements.

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ADOBE INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balances at December 2, 2016	600,834	\$ 61	\$4,616,331	\$ 8,114,517	\$ (173,602)	(106,580)	\$ (5,132,472)	\$ 7,424,835
Net income	—	—	—	1,693,954	—	—	—	1,693,954
Other comprehensive income (losses), net of taxes	—	—	—	—	61,781	—	—	61,781
Re-issuance of treasury stock under stock compensation plans	—	—	1,768	(234,601)	—	5,194	151,058	(81,775)
Purchase of treasury stock	—	—	—	—	—	(8,186)	(1,100,000)	(1,100,000)
Equity awards assumed for acquisition	—	—	10,348	—	—	—	—	10,348
Stock-based compensation	—	—	453,748	—	—	—	—	453,748
Value of shares in deferred compensation plan	—	—	—	—	—	—	(3,022)	(3,022)
Balances at December 1, 2017	600,834	\$ 61	\$5,082,195	\$ 9,573,870	\$ (111,821)	(109,572)	\$ (6,084,436)	\$ 8,459,869
Net income	—	—	—	2,590,774	—	—	—	2,590,774
Other comprehensive income (losses), net of taxes	—	—	—	—	(36,309)	—	—	(36,309)
Re-issuance of treasury stock under stock compensation plans	—	—	(1,125)	(348,729)	—	5,087	147,651	(202,203)
Purchase of treasury stock	—	—	—	—	—	(8,686)	(2,050,000)	(2,050,000)
Equity awards assumed for acquisition	—	—	2,784	—	—	—	—	2,784
Stock-based compensation	—	—	601,483	—	—	—	—	601,483
Value of shares in deferred compensation plan	—	—	—	—	—	—	(3,966)	(3,966)
Impacts of the U.S. Tax Act	—	—	—	(318)	—	—	—	(318)
Balances at November 30, 2018	600,834	\$ 61	\$5,685,337	\$ 11,815,597	\$ (148,130)	(113,171)	\$ (7,990,751)	\$ 9,362,114
Impacts of adoption of the new revenue standard	—	—	—	442,319	—	—	—	442,319
Net income	—	—	—	2,951,458	—	—	—	2,951,458
Other comprehensive income (losses), net of taxes	—	—	—	—	(39,904)	—	—	(39,904)
Re-issuance of treasury stock under stock compensation plans	—	—	48,686	(380,812)	—	4,559	125,074	(207,052)
Purchase of treasury stock	—	—	—	—	—	(9,883)	(2,750,000)	(2,750,000)
Stock-based compensation	—	—	770,777	—	—	—	—	770,777
Value of shares in deferred compensation plan	—	—	—	—	—	—	443	443
Balances at November 29, 2019	<u>600,834</u>	<u>\$ 61</u>	<u>\$6,504,800</u>	<u>\$ 14,828,562</u>	<u>\$ (188,034)</u>	<u>(118,495)</u>	<u>\$ (10,615,234)</u>	<u>\$ 10,530,155</u>

See accompanying Notes to Consolidated Financial Statements.

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ADOBE INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended		
	November 29, 2019	November 30, 2018	December 1, 2017
Cash flows from operating activities:			
Net income	\$ 2,951,458	\$ 2,590,774	\$ 1,693,954
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion	736,669	346,492	325,997
Stock-based compensation	787,705	609,562	454,472
Deferred income taxes	2,707	(468,936)	51,605
Unrealized losses (gains) on investments, net	(47,626)	793	(5,494)
Other non-cash items	13,835	7,193	4,625
Changes in operating assets and liabilities, net of acquired assets and assumed liabilities:			
Trade receivables, net	(187,826)	(1,983)	(187,173)
Prepaid expenses and other assets	(531,054)	(77,225)	28,040
Trade payables	23,129	54,920	(45,186)
Accrued expenses	171,705	43,837	151,104
Income taxes payable	4,152	479,184	(34,493)
Deferred revenue	496,959	444,693	475,402
Net cash provided by operating activities	4,421,813	4,029,304	2,912,853
Cash flows from investing activities:			
Purchases of short-term investments	(699,893)	(566,084)	(1,931,011)
Maturities of short-term investments	699,540	765,860	759,737
Proceeds from sales of short-term investments	86,137	1,709,480	1,393,929
Acquisitions, net of cash acquired	(100,704)	(6,314,382)	(459,626)
Purchases of property and equipment	(394,479)	(266,579)	(178,122)
Purchases of long-term investments, intangibles and other assets	(48,735)	(18,513)	(29,918)
Proceeds from sale of long-term investments and other assets	2,550	4,923	2,134
Net cash used for investing activities	(455,584)	(4,685,295)	(442,877)
Cash flows from financing activities:			
Purchases of treasury stock	(2,750,000)	(2,050,000)	(1,100,000)
Proceeds from re-issuance of treasury stock	232,932	190,990	158,351
Taxes paid related to net share settlement of equity awards	(439,984)	(393,193)	(240,126)
Proceeds from debt issuance, net of costs	—	2,248,342	—
Other financing activities, net	11,008	(1,707)	(1,960)
Net cash used for financing activities	(2,946,044)	(5,568)	(1,183,735)
Effect of foreign currency exchange rates on cash and cash equivalents	(12,739)	(1,738)	8,516
Net increase (decrease) in cash and cash equivalents	1,007,446	(663,297)	1,294,757
Cash and cash equivalents at beginning of year	1,642,775	2,306,072	1,011,315
Cash and cash equivalents at end of year	\$ 2,650,221	\$ 1,642,775	\$ 2,306,072
Supplemental disclosures:			
Cash paid for income taxes, net of refunds	\$ 352,478	\$ 210,369	\$ 396,668
Cash paid for interest	\$ 152,075	\$ 81,258	\$ 69,430
Non-cash investing activities:			
Investment in lease receivable applied to building purchase	\$ —	\$ —	\$ 80,439
Issuance of common stock and stock awards assumed in business acquisitions	\$ —	\$ 2,784	\$ 10,348

See accompanying Notes to Consolidated Financial Statements.

ADOBE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Operations

Founded in 1982, Adobe Inc. is one of the largest and most diversified software companies in the world. We offer a line of products and services used by creative professionals, marketers, knowledge workers, students, application developers, enterprises and consumers for creating, managing, delivering, measuring, optimizing, engaging and transacting with compelling content and experiences across personal computers, devices and media. We market our products and services directly to enterprise customers through our sales force and local field offices. We license our products to end users through app stores and our own website at www.adobe.com. We offer many of our products via a Software-as-a-Service (“SaaS”) model or a managed services model (both of which are referred to as hosted or cloud-based) as well as through term subscription and pay-per-use models. We also distribute certain products and services through a network of distributors, value-added resellers, systems integrators, independent software vendors, retailers, software developers and original equipment manufacturers (“OEMs”). In addition, we license our technology to hardware manufacturers, software developers and service providers for use in their products and solutions. Our products run on personal and server-based computers, as well as on smartphones, tablets and other devices, depending on the product. We have operations in the Americas, Europe, Middle East and Africa (“EMEA”), and Asia-Pacific (“APAC”).

Basis of Presentation

The accompanying Consolidated Financial Statements include those of Adobe and its subsidiaries, after elimination of all intercompany accounts and transactions. We have prepared the accompanying Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and pursuant to the rules and regulations of the United States Securities and Exchange Commission (the “SEC”).

Use of Estimates

In preparing Consolidated Financial Statements and related disclosures in conformity with GAAP and pursuant to the rules and regulations of the SEC, we must make estimates and judgments that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Estimates are used for, but not limited to, sales allowances and programs, bad debts, stock-based compensation, determining the fair value of acquired assets and assumed liabilities, impairment of goodwill and intangible assets, litigation and income taxes. Actual results may differ materially from these estimates.

Fiscal Year

Our fiscal year is a 52- or 53-week year that ends on the Friday closest to November 30. Fiscal years 2019, 2018 and 2017 were 52-week years.

Reclassifications

Certain immaterial prior year amounts have been reclassified to conform to current year presentation in the Notes to Consolidated Financial Statements.

ADOBE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Recently Adopted Accounting Guidance**

On May 28, 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers, Topic 606, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Topic 606 also includes Subtopic 340-40, Other Assets and Deferred Costs - Contracts with Customers, which requires the capitalization of incremental costs to obtain a contract with a customer. The new revenue standard replaces most existing revenue recognition guidance in GAAP and permits the use of either the full retrospective or modified retrospective transition method.

On December 1, 2018, the beginning of our fiscal year 2019, we adopted the requirements of the new revenue standard utilizing the modified retrospective method of transition. Prior period information has not been restated and continues to be reported under the accounting standard in effect for those periods. We applied the new revenue standard to contracts that were not completed as of the adoption date, consistent with the transition guidance. Further, adoption of the new revenue standard resulted in changes to our accounting policies for revenue recognition and sales commissions as detailed below.

We recognized the following cumulative effects of initially applying the new revenue standard as of December 1, 2018:

(in thousands)	<u>As of November 30, 2018</u>	<u>Topic 606 Adoption Adjustments</u>	<u>As of December 1, 2018</u>
Assets			
Trade receivables, net of allowances for doubtful accounts	\$ 1,315,578	\$ 43,028	\$ 1,358,606
Prepaid expenses and other current assets	312,499	186,220	498,719
Other assets	186,522	273,421	459,943
Liabilities and Stockholders' Equity			
Accrued expenses	1,163,185	30,358	1,193,543
Deferred revenue, current	2,915,974	(52,842)	2,863,132
Deferred income taxes	46,702	82,834	129,536
Retained earnings	\$ 11,815,597	\$ 442,319	\$ 12,257,916

Below is a summary of the adoption impacts of the new revenue standard:

- We capitalized \$413.2 million of contract acquisition costs comprised of sales and partner commission costs at adoption date (included in prepaid expenses and other current assets for the current portion and other assets for the long-term portion), with a corresponding adjustment to retained earnings. We are amortizing these costs over their respective expected period of benefit.
- Revenue for certain contracts that were previously deferred would have been recognized in periods prior to adoption under the new standard. Upon adoption, we recorded the following adjustments to our beginning balances to reflect the amount of revenue that will no longer be recognized in future periods for such contracts: an increase in unbilled receivables (included in trade receivables, net) of \$24.8 million, an increase in contract assets (included in prepaid expenses and other current assets for the current portion and other assets for the long-term portion) of \$46.4 million and a decrease in deferred revenue of \$52.8 million, with corresponding adjustments to retained earnings.
- We recorded an increase to our opening deferred income tax liability of \$82.8 million, with a corresponding adjustment to retained earnings, to record the tax effect of the above adjustments.
- Further, we had other impacts to various accounts which resulted to an immaterial net reduction to our retained earnings.

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ADOBE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Adoption of the new revenue standard impacted our Consolidated Statements of Income for the year ended November 29, 2019 as follows:

(in thousands, except per share amounts)	<u>As reported</u>	<u>Adjustments</u>	<u>Balances without Topic 606 adoption impact</u>
Revenue			
Subscription	\$ 9,994,463	\$ 1,440	\$ 9,995,903
Product	647,788	(101,981)	545,807
Services and support	529,046	(7,431)	521,615
Total revenue	11,171,297	(107,972)	11,063,325
Operating expenses			
Sales and marketing	3,244,347	11,987	3,256,334
General and administrative	880,637	(7,646)	872,991
Provision for income taxes	253,283	(6,517)	246,766
Net income	\$ 2,951,458	\$ (105,953)	\$ 2,845,505
Basic net income per share	\$ 6.07	\$ (0.22)	\$ 5.85
Diluted net income per share	\$ 6.00	\$ (0.21)	\$ 5.79

Adoption of the new revenue standard impacted our Consolidated Balance Sheets as of November 29, 2019 as follows:

(in thousands)	<u>As reported</u>	<u>Adjustments</u>	<u>Balances without Topic 606 adoption impact</u>
Assets			
Trade receivables, net of allowances for doubtful accounts	\$ 1,534,809	\$ (58,140)	\$ 1,476,669
Prepaid expenses and other current assets	783,140	(198,692)	584,448
Other assets	562,696	(340,458)	222,238
Liabilities and Stockholders' Equity			
Accrued expenses	1,398,548	(51,918)	1,346,630
Deferred revenue, current	3,377,986	113,432	3,491,418
Deferred revenue, long-term	122,727	(14,723)	108,004
Income taxes payable, long-term	616,102	(7,112)	608,990
Deferred income taxes	140,498	(88,697)	51,801
Retained earnings	\$ 14,828,562	\$ (548,272)	\$ 14,280,290

There was no net impact to our Consolidated Statements of Comprehensive Income and Consolidated Statements of Cash Flows resulting from the adoption of the new revenue standard other than the impact to reported net income as presented above. The impact to our Consolidated Statements of Stockholders' Equity was only to retained earnings, as presented above.

The most significant impact of the new revenue standard relates to our capitalization of certain incremental costs to acquire contracts and the requirement to amortize these amounts over the expected period of benefit. Under the previous standard, we expensed costs related to the acquisition of revenue-generating contracts as incurred. Additionally, there was impact from arrangements with our customers that include on-premise term-based software licenses bundled with maintenance and support. Under the previous standard, revenue attributable to these software licenses was recognized ratably over the term of the arrangement because vendor-specific objective evidence ("VSOE") did not exist for the undelivered maintenance and support element as it is not sold separately. The requirement to have VSOE for undelivered elements to enable the separation of revenue recognition for delivered software licenses is eliminated under the new revenue standard. Accordingly, under the new revenue standard we recognize as revenue a portion of the arrangement fee upon delivery of the software licenses and classify that recognized revenue as product revenue instead of subscription revenue in our Consolidated Statements of Income.

ADOBE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Other impacts to our policies and disclosures include earlier recognition of revenue for certain contracts due to the elimination of contingent revenue limitations, the requirement to estimate variable consideration for certain arrangements, increased allocation of revenue to and from professional services and other offerings and changes to our financial statement disclosures such as new disclosures related to our remaining performance obligations. However, the timing and pattern of revenue recognition related to our professional services and cloud-enabled offerings, including Creative Cloud and Document Cloud for enterprises, individuals and teams, remain substantially unchanged. When Creative Cloud and Document Cloud are sold with cloud-enabled services, the on-premise/on-device software licenses and cloud-enabled services are so highly interrelated and interdependent that they are not each separately identifiable within the context of the contract and therefore not distinct from each other. Revenue for these offerings continues to be recognized ratably over the subscription period for which the cloud-enabled services are provided.

There have been no other new accounting pronouncements made effective during fiscal 2019 that have significance, or potential significance, to our Consolidated Financial Statements.

Significant Accounting Policies*Revenue Recognition*

Our revenue is derived from the sale of cloud-enabled software subscriptions, cloud-hosted offerings, term-based, royalty, and perpetual software licenses, associated software maintenance and support plans, consulting services, training and technical support. Most of our enterprise customer arrangements involve multiple promises to our customers.

Revenue is recognized when a contract exists between us and a customer and upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. We enter into contracts that can include various combinations of products and services, which may be capable of being distinct and accounted for as separate performance obligations, or in the case of offerings such as cloud-enabled Creative Cloud and Document Cloud, accounted for as a single performance obligation. Revenue is recognized net of allowances for returns and any taxes collected from customers, which are subsequently remitted to governmental authorities.

Product, Subscription and Services Offerings

We enter into revenue arrangements in which a customer may purchase a combination of cloud-enabled subscriptions, cloud-hosted offerings, term-based, royalty, and perpetual software licenses, associated software maintenance and support plans, consulting services, training and technical support.

Fully hosted subscription services (SaaS) allow customers to access hosted software during the contractual term without taking possession of the software. Cloud-hosted subscription services may be sold on a fee-per-subscription period basis or based on consumption or usage.

We recognize revenue ratably over the contractual service term for hosted services that are priced based on a committed number of transactions where the delivery and consumption of the benefit of the services occur evenly over time, beginning on the date the services associated with the committed transactions are first made available to the customer and continuing through the end of the contractual service term. Over-usage fees and fees based on the actual number of transactions are billed in accordance with contract terms as these fees are incurred and are included in the transaction price of an arrangement as variable consideration. Fees based on a number of transactions or impressions per month, where invoicing is aligned to the pattern of performance, customer benefit and consumption, are typically accounted for utilizing the “as-invoiced” practical expedient. Revenue for subscriptions sold as a fee per period is recognized ratably over the contractual term as the customer simultaneously receives and consumes the benefit of the underlying service.

When cloud-enabled services are highly integrated and interrelated with on-premise software, such as in our cloud-enabled Creative Cloud and Document Cloud offerings, the individual components are not considered distinct and revenue is recognized ratably over the subscription period for which the cloud-enabled services are provided.

Licenses for on-premise software may be purchased on a perpetual basis, as a subscription for a fixed period of time or based on usage for certain of our OEM and royalty agreements. Revenue from distinct on-premise licenses is recognized at the point in time the software is available to the customer, provided all other revenue recognition criteria are met, and classified as product revenue on our Consolidated Statements of Income. Some of our enterprise license arrangements allow customers to

ADOBE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

commit non-cancellable funds. These non-cancellable committed funds are nonrefundable and provide our customers options to either renew monthly on-premise term-based licenses or use some or all funds to purchase other Adobe products or services. Revenue associated with these monthly term-based licenses is classified as subscription revenue.

Our services and support revenue is composed of consulting, training, and maintenance and support, primarily related to our enterprise offerings. Our support revenue also includes technical support and developer support to partners and developer organizations related to our desktop products. We typically sell our consulting contracts on a time-and-materials basis and recognize the related revenue as services are rendered. We typically sell our maintenance and support contracts on a flat fee or percentage of associated license fees basis and recognize the related revenue ratably over the support term as the underlying service is a stand-ready performance obligation.

We exclude from the transaction price sales and other taxes collected from customers on behalf of the relevant government authority. Most of our products are delivered electronically, however in instances where shipping and handling costs are incurred, we treat these amounts as costs to fulfill the contract and they are not considered a performance obligation and the associated fees are not included in the transaction price.

Judgments

Our contracts with customers may include multiple goods and services. For example, some of our offerings include both on-premise and/or on-device software licenses and cloud services. Determining whether the software licenses and the cloud services are distinct from each other, and therefore performance obligations to be accounted for separately, or not distinct from each other, and therefore part of a single performance obligation, may require significant judgment. We have concluded that the on-premise/on-device software licenses and cloud services provided in our Creative Cloud and Document Cloud subscription offerings are not distinct from each other such that revenue from each offering should be recognized ratably over the subscription period for which the cloud services are provided. In reaching this conclusion, we considered the nature of our promise to Creative Cloud and Document Cloud customers, which is to provide a complete end-to-end creative design or document workflow solution that operates seamlessly across multiple devices and teams. We fulfill this promise by providing access to a solution that integrates cloud-based and on-premise/on-device features that, together through their integration, provide functionalities, utility and workflow efficiencies that could not be obtained from either the on-premise/on-device software or cloud services on their own.

Cloud-based features that are integral to our Creative Cloud and Document Cloud offerings and that work together with the on-premise/on-device software include, but are not limited to: Creative Cloud Libraries, which enable customers to access their work, settings, preferences, and other assets seamlessly across desktop and mobile devices and collaborate across teams in real time; shared reviews which enable simultaneous editing and commenting of PDFs across desktop, mobile and web; automatic cloud rendering of a design which enables it to be worked on in multiple mediums; and Sensei, Adobe's cloud-hosted artificial intelligence and machine learning framework, which enables features such as automated photo-editing, photograph content-awareness, natural language processing, optical character recognition and automated document tagging.

Standalone selling price is established by maximizing the amount of observable inputs, primarily actual historical selling prices for performance obligations where available, and includes consideration of factors such as go-to-market model and geography. Individual products may have multiple values for standalone selling price depending on factors such as where they are sold and what channel they are sold through. Where standalone selling price may not be directly observable (e.g., the performance obligation is not sold separately), we maximize the use of observable inputs by using information that may include reviewing pricing practices, performance obligations with similar customers and selling models.

Capitalized costs to obtain a contract are amortized over the expected period of benefit, which we have determined, based on analysis, to be 5 years. We evaluated qualitative and quantitative factors to determine the period of amortization, including contract length, renewals, customer life and the useful lives of our products and acquired products. When the expected period of benefit of an asset which would be capitalized is less than one year, we expense the amount as incurred, utilizing the practical expedient. We regularly evaluate whether there have been changes in the underlying assumptions and data used to determine the amortization period.

When revenue arrangements include components of third-party goods and services, for example in transactions which involve resale, fulfillment or providing advertising impressions to our end customer, we evaluate whether we are the principal, and report revenues on a gross basis, or an agent, and report revenues on a net basis. In this assessment, we consider if we obtain

ADOBE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

control of the specified goods or services before they are transferred to the customer by evaluating indicators such as which party is primarily responsible for fulfilling the promise to provide the goods or services, which party has discretion in establishing price and the underlying terms and conditions between the parties to the transaction.

We offer limited rights of return, rebates and price protection of our products under various policies and programs with our distributors, resellers and/or end-user customers. We estimate and record reserves for these programs as variable consideration when estimating transaction price. Returns, rebates and other offsets to transaction price are estimated at contract inception on a portfolio basis and assessed for reasonableness each reporting period when additional information becomes available.

General Contract Provisions

We maintain revenue reserves for rebates, rights of return and other limited price adjustments.

Distributors are allowed limited rights of return of products purchased during the previous quarter. In addition, distributors are allowed to return products that have reached the end of their lives, as defined by us, and for products that are being replaced by new versions.

We offer rebates to our distributors, resellers and/or end-user customers. Transaction price is reduced for these amounts based on actual performance against objectives set forth by us for a particular reporting period, such as volume and timely reporting.

On a quarterly basis, the amount of revenue that is reserved is calculated based on our historical trends and data specific to each reporting period. The primary method of establishing these reserves is to review historical data from prior periods as a percent of revenue to determine a historical reserve rate. We then apply the historical rate to the current period revenue as a basis for estimating future returns. When necessary, we also provide a specific reserve in excess of portfolio-level estimated requirements. This estimate can be affected by the amount of a particular product in the channel, the rate of sell-through, product plans and other factors.

Although our subscription contracts are generally non-cancellable, a limited number of customers have the right to cancel their contracts by providing prior written notice to us of their intent to cancel the remainder of the contract term and consumers have a period of time to terminate certain agreements without penalty. In the event a customer cancels their contract, they are generally not entitled to a refund for prior services we have provided to them. Contracts that include termination rights without substantive penalty are accounted for as contracts only for the committed period. Periods of time after the right of termination are accounted for as optional purchases when they do not represent material rights. For certain of our usage-based license agreements, typically in our royalty and OEM businesses, reporting may be received after the end of a fiscal period. In such instances, we estimate and accrue license revenue. We base our estimates on multiple factors, including historical sales information, seasonality and other business information which may impact our estimates. We do not estimate variable consideration for our sales and usage-based license royalty agreements, consistent with the associated exception for sales and usage-based royalties for the license of intellectual property under the new revenue standard.

Property and Equipment

We record property and equipment at cost less accumulated depreciation and amortization. Property and equipment are depreciated using the straight-line method over their estimated useful lives ranging from 1 to 20 years for computers and other equipment, which includes our corporate jet, 1 to 6 years for furniture and fixtures, 5 to 20 years for building improvements and up to 40 years for buildings. Leasehold improvements are amortized using the straight-line method over the lesser of the remaining respective lease term or estimated useful lives ranging from 1 to 15 years.

Goodwill, Intangibles and Other Long-Lived Assets

Goodwill is assigned to one or more reporting segments on the date of acquisition. We review our goodwill for impairment annually during our second quarter of each fiscal year and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of any one of our reporting units below its respective carrying amount. In performing our goodwill impairment test, we first perform a qualitative assessment, which requires that we consider events or circumstances including macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, changes in management or key personnel, changes in strategy, changes in customers, changes in the composition or carrying amount of a reporting segment's net assets and changes in our stock price. If, after assessing the totality of events or circumstances, we determine



ADOBE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

that it is more likely than not that the fair values of our reporting segments are greater than the carrying amounts, then the quantitative goodwill impairment test is not performed.

If the qualitative assessment indicates that the quantitative analysis should be performed, we then evaluate goodwill for impairment by comparing the fair value of each of our reporting segments to its carrying value, including the associated goodwill. To determine the fair values, we use the equal weighting of the market approach based on comparable publicly traded companies in similar lines of businesses and the income approach based on estimated discounted future cash flows. Our cash flow assumptions consider historical and forecasted revenue, operating costs and other relevant factors.

We completed our annual goodwill impairment test in the second quarter of fiscal 2019. We determined, after performing a qualitative review of each reporting segment, that it is more likely than not that the fair value of each of our reporting segments substantially exceeds the respective carrying amounts. Accordingly, there was no indication of impairment and the quantitative goodwill impairment test was not performed. We did not identify any events or changes in circumstances since the performance of our annual goodwill impairment test that would require us to perform another goodwill impairment test during the fiscal year.

We amortize intangible assets with finite lives over their estimated useful lives and review them for impairment whenever an impairment indicator exists. We continually monitor events and changes in circumstances that could indicate carrying amounts of our long-lived assets, including our intangible assets, may not be recoverable. When such events or changes in circumstances occur, we assess recoverability by determining whether the carrying value of such assets will be recovered through the undiscounted expected future cash flows. If the future undiscounted cash flows are less than the carrying amount of these assets, we recognize an impairment loss based on any excess of the carrying amount over the fair value of the assets. We did not recognize any intangible asset impairment charges in fiscal 2019, 2018 or 2017.

During fiscal 2019, our intangible assets were amortized over their estimated useful lives ranging from 1 to 15 years. Amortization is based on the pattern in which the economic benefits of the intangible asset will be consumed or on a straight-line basis when the consumption pattern is not apparent. The weighted average useful lives of our intangible assets were as follows:

	Weighted Average Useful Life (years)
Customer contracts and relationships	10
Purchased technology	6
Trademarks	9
Backlog	2
Acquired rights to use technology	10
Other	4

Income Taxes

We use the asset and liability method of accounting for income taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year. In addition, deferred tax assets and liabilities are recognized for expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. We record a valuation allowance to reduce deferred tax assets to an amount for which realization is more likely than not.

Taxes Collected from Customers

We net taxes collected from customers against those remitted to government authorities in our financial statements. Accordingly, taxes collected from customers are not reported as revenue.

Treasury Stock

We account for treasury stock under the cost method. When treasury stock is re-issued at a price higher than its cost, the difference is recorded as a component of additional paid-in-capital in our Consolidated Balance Sheets. When treasury stock is re-issued at a price lower than its cost, the difference is recorded as a component of additional paid-in-capital to the extent that

ADOBE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

there are previously recorded gains to offset the losses. If there are no treasury stock gains in additional paid-in-capital, the losses upon re-issuance of treasury stock are recorded as a reduction of retained earnings in our Consolidated Balance Sheets.

Advertising Expenses

Advertising costs are expensed as incurred. Advertising expenses for fiscal 2019, 2018 and 2017 were \$221.1 million, \$173.6 million and \$141.7 million, respectively.

Foreign Currency Translation

We translate assets and liabilities of foreign subsidiaries, whose functional currency is their local currency, at exchange rates in effect at the balance sheet date. We translate revenue and expenses at the monthly average exchange rates. We include accumulated net translation adjustments in stockholders' equity as a component of accumulated other comprehensive income (loss).

Derivative Financial Instruments

In countries outside the United States, we transact business in U.S. Dollars and in various other currencies. We may use foreign exchange option and forward contracts to hedge a portion of our forecasted foreign currency denominated revenue primarily in Euros, British Pounds and Japanese Yen. We hedge our net recognized foreign currency assets and liabilities with foreign exchange forward contracts to reduce the risk that our earnings and cash flows will be adversely affected by changes in exchange rates.

We recognize all derivative instruments as either assets or liabilities in our Consolidated Balance Sheets and measure them at fair value. Gains and losses resulting from changes in fair value are accounted for depending on the use of the derivative and whether it is designated and qualifies for hedge accounting. Contracts that do not qualify for hedge accounting are adjusted to fair value through earnings.

Gains and losses related to changes in the fair value of interest rate swaps and foreign exchange forward contracts which hedge certain balance sheet positions are recorded each period as a component of interest and other income (expense), net in our Consolidated Statements of Income. Foreign exchange option contracts hedging forecasted foreign currency revenue and Treasury lock agreements are designated as cash flow hedges with gains and losses recorded net of tax as a component of accumulated other comprehensive income (loss) in our Consolidated Balance Sheets, until the forecasted transaction occurs. When the forecasted transaction affects earnings, we reclassify the related gain or loss on the foreign currency and Treasury lock cash flow hedges to revenue and interest expense, respectively.

Concentration of Risk

Financial instruments that potentially subject us to concentrations of credit risk are short-term fixed-income investments, structured repurchase transactions, foreign currency and interest rate hedge contracts and trade receivables.

Our investment portfolio consists of investment-grade securities diversified among security types, industries and issuers. Our cash and investments are held and primarily managed by recognized financial institutions that follow our investment policy. Our policy limits the amount of credit exposure to any one security issue or issuer and we believe no significant concentration of credit risk exists with respect to these investments.

We enter into master netting arrangements to mitigate credit risk in derivative transactions by permitting net settlement of transactions with the same counterparty. We also enter into collateral security agreements with certain of our counterparties to exchange cash collateral when the net fair value of certain derivative instruments fluctuates from contractually established thresholds.

Credit risk in receivables is limited to OEMs, dealers and distributors of hardware and software products to the retail market, customers to whom we license software directly and our SaaS offerings. A credit review is completed for our new distributors, dealers and OEMs. We also perform ongoing credit evaluations of our customers' financial condition and require letters of credit or other guarantees, whenever deemed necessary. The credit limit given to the customer is based on our risk assessment of their ability to pay, country risk and other factors and is not contingent on the resale of the product or on the collection of payments

ADOBE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

from their customers. Certain contracts with advertising agencies contain sequential liability provisions, under which the agency is not required to pay until payment is received from the agency's customers. In these circumstances, we evaluate the creditworthiness of the agency's customers in addition to the agency itself. If we license our software or provide SaaS services to a customer where we have a reason to believe the customer's ability and intention to pay is not probable, the arrangement is not considered to be a revenue contract. Accordingly, we will not recognize any consideration received as revenue until termination or substantive completion of the services.

Recent Accounting Pronouncements Not Yet Effective

On February 24, 2016, the FASB issued ASU No. 2016-02, Leases, requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases with a lease term of twelve months or less. For lessees, leases will continue to be classified as either operating or finance leases in the income statement. Lessor accounting is similar to the current model but updated to align with certain changes to the lessee model. Lessors will continue to classify leases as operating, direct financing or sales-type leases. The effective date of the new leases standard for public companies is for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. The new leases standard is effective for us beginning in the first quarter of fiscal 2020, and we did not early adopt.

The new leases standard must be adopted using a modified retrospective transition method and allows for the application of the new guidance at the beginning of the earliest comparative period presented or at the adoption date. In July 2018, the FASB issued ASU No. 2018-11, Leases - Targeted Improvements, providing an optional transition method that allows entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. We will adopt the new leases standard using this optional transition method.

We have completed our assessment of the impacts of the standard, and note that the most significant impact will be the recognition of right-of-use assets and lease liabilities on our Consolidated Balance Sheets. The standard will not have a material impact to our Consolidated Statements of Income and Cash Flows. We are in the final stages of implementing a new lease accounting system and updating our processes for the adoption of the new leases standard.

On August 28, 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging, requiring expanded hedge accounting for both non-financial and financial risk components and refining the measurement of hedge results to better reflect an entity's hedging strategies. For example, adoption would result in reclassification of hedge costs from foreign currency hedges from interest and other income (expense), net to revenue in our Consolidated Statements of Income. The updated standard also amends the presentation and disclosure requirements and changes how entities assess hedge effectiveness. The effective date of the new standard for public companies is for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition with a cumulative-effect adjustment recorded to opening retained earnings as of the initial adoption date. The updated standard is effective for us beginning in the first quarter of fiscal 2020, and will not have a material impact on our Consolidated Financial Statements and related disclosures.

With the exception of the new standards discussed above, there have been no other new accounting pronouncements that have significance, or potential significance, to our Consolidated Financial Statements.

NOTE 2. REVENUE

Segment Information

We report segment information based on the "management" approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of our reportable segments.

Our Chief Executive Officer, the chief operating decision maker, reviews revenue and gross margin information for each of our reportable segments, but does not review operating expenses on a segment by segment basis. In addition, with the exception of goodwill and intangible assets, we do not identify or allocate our assets by the reportable segments.

Our business is organized into three reportable segments: Digital Media, Digital Experience and Publishing. These segments provide our senior management with a comprehensive financial view of our key businesses. Our segments are aligned around our

ADOBE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

two strategic growth opportunities as described in the “Business Overview” within Part I, Item 1, placing our Publishing business in a third segment that contains some of our mature products and solutions.

In fiscal 2019, we categorized our products into the following reportable segments:

- *Digital Media*—Our Digital Media segment provides tools and solutions that enable individuals, teams and enterprises to create, publish, promote and monetize their digital content anywhere. Our customers include content creators, experience designers, app developers, enthusiasts, students, social media users and creative professionals, as well as marketing departments and agencies, companies and publishers. Our customers also include knowledge workers who create, collaborate on and distribute documents and creative content.
- *Digital Experience*—Our Digital Experience segment provides products, services and solutions for creating, managing, executing, measuring, monetizing and optimizing customer experiences from advertising to commerce. Our customers include marketers, advertisers, agencies, publishers, merchandisers, merchants, web analysts, data scientists, developers, marketing executives, information management and technology executives, product development executives, and sales and support executives.
- *Publishing*—Our Publishing segment addresses market opportunities ranging from the diverse authoring and publishing needs of technical and business publishing to our legacy type and OEM printing businesses. It also includes our web conferencing and document and forms platforms.

Revenue for fiscal 2019 presented below is in accordance with the new revenue standard that was adopted under the modified retrospective method. Prior period revenue has not been restated.

Our segment revenue and results for fiscal 2019, 2018 and 2017 were as follows:

(dollars in thousands)	Digital Media	Digital Experience	Publishing	Total
Fiscal 2019				
Revenue	\$ 7,706,983	\$ 3,206,169	\$ 258,145	\$ 11,171,297
Cost of revenue	289,639	1,362,886	20,195	1,672,720
Gross profit	\$ 7,417,344	\$ 1,843,283	\$ 237,950	\$ 9,498,577
Gross profit as a percentage of revenue	96%	57%	92%	85%
Fiscal 2018				
Revenue	\$ 6,325,315	\$ 2,443,745	\$ 260,948	\$ 9,030,008
Cost of revenue	249,386	922,414	23,199	1,194,999
Gross profit	\$ 6,075,929	\$ 1,521,331	\$ 237,749	\$ 7,835,009
Gross profit as a percentage of revenue	96%	62%	91%	87%
Fiscal 2017				
Revenue	\$ 5,010,579	\$ 2,030,324	\$ 260,602	\$ 7,301,505
Cost of revenue	239,994	747,005	23,492	1,010,491
Gross profit	\$ 4,770,585	\$ 1,283,319	\$ 237,110	\$ 6,291,014
Gross profit as a percentage of revenue	95%	63%	91%	86%

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ADOBE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenue by geographic area for fiscal 2019, 2018 and 2017 were as follows:

(in thousands)	2019	2018	2017
Americas:			
United States	\$ 5,904,185	\$ 4,632,469	\$ 3,830,845
Other	601,721	484,296	385,686
Total Americas	6,505,906	5,116,765	4,216,531
EMEA			
	2,975,243	2,550,062	1,985,105
APAC:			
Japan	751,542	609,361	524,254
Other	938,606	753,820	575,615
Total APAC	1,690,148	1,363,181	1,099,869
Revenue	\$ 11,171,297	\$ 9,030,008	\$ 7,301,505

Revenue by major offerings in our Digital Media reportable segment for fiscal 2019, 2018 and 2017 were as follows:

(in thousands)	2019	2018	2017
Creative Cloud	\$ 6,482,345	\$ 5,343,498	\$ 4,173,964
Document Cloud	1,224,638	981,817	836,615
Total	\$ 7,706,983	\$ 6,325,315	\$ 5,010,579

Subscription revenue by segment for fiscal 2019, 2018 and 2017 were as follows:

(in thousands)	2019	2018	2017
Digital Media	\$ 7,208,238	\$ 5,857,700	\$ 4,480,745
Digital Experience	2,670,748	1,949,185	1,552,536
Publishing	115,477	115,267	100,588
Total	\$ 9,994,463	\$ 7,922,152	\$ 6,133,869

Contract Balances

Trade Receivables

A receivable is recorded when an unconditional right to invoice and receive payment exists, such that only the passage of time is required before payment of consideration is due. Timing of revenue recognition may differ from the timing of invoicing to customers. Certain performance obligations may require payment before delivery of the license or service to the customer. Included in trade receivables on the Consolidated Balance Sheets are unbilled receivable balances which have not yet been invoiced, and are typically related to license revenue or services which are delivered prior to invoicing occurring.

The opening balance of trade receivables, net of allowances for doubtful accounts, as of December 1, 2018 was \$1.36 billion, inclusive of unbilled receivables of \$105.8 million. As of November 29, 2019, the balance of trade receivables, net of allowances for doubtful accounts, was \$1.53 billion, inclusive of unbilled receivables of \$149.3 million.

ADOBE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts which reflects our best estimate of potentially uncollectible trade receivables. The allowance is based on both specific and general reserves. We regularly review our trade receivables allowance by considering factors such as historical experience, credit-worthiness, the age of the trade receivable balances and current economic conditions that may affect a customer's ability to pay and we specifically reserve for those deemed uncollectible.

During fiscal 2019, 2018 and 2017, our allowance for doubtful accounts activities were as follows:

(in thousands)	2019	2018	2017
Beginning balance	\$ 14,981	\$ 9,151	\$ 6,214
Increase due to acquisition	10	5,602	2,391
Charged to operating expenses	5,324	5,962	4,411
Deductions ⁽¹⁾	(10,665)	(5,734)	(3,865)
Ending balance	<u>\$ 9,650</u>	<u>\$ 14,981</u>	<u>\$ 9,151</u>

⁽¹⁾ Deductions related to the allowance for doubtful accounts represent amounts written off against the allowance, less recoveries.

Contract Assets

A contract asset is recognized when a conditional right to consideration exists and transfer of control has occurred. Contract assets are typically related to subscription and hosted service contracts where the transaction price allocated to the satisfied performance obligations exceeds the value of billings to date. Contract assets are included in prepaid expenses and other current assets for the current portion and other assets for the long-term portion on the Consolidated Balance Sheets. We regularly review contract asset balances for impairment, considering factors such as historical experience, credit-worthiness, age of the balance and other economic or business factors. Contract asset impairments were not significant in fiscal 2019.

The opening balance of contract assets as of December 1, 2018 was \$46.4 million. As of November 29, 2019, the balance of contract assets was \$63.9 million.

Deferred Revenue and Remaining Performance Obligations

Deferred revenue primarily consists of billings or payments received in advance of revenue recognition from subscription services, including non-cancellable and non-refundable committed funds and deposits. Deferred revenue is recognized as revenue when transfer of control to customers has occurred. Customers are typically invoiced for these agreements in regular installments and revenue is recognized ratably over the contractual subscription period. The deferred revenue balance is influenced by several factors, including seasonality, the compounding effects of renewals, invoice duration, invoice timing, size and new business linearity within the quarter. Deferred revenue does not represent the total contract value of annual or multi-year non-cancellable subscription agreements.

Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 30 to 60 days. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined our contracts generally do not include a significant financing component. The primary purpose of our invoicing terms is to provide customers with simplified and predictable ways of purchasing our products and services, such as invoicing at the beginning of a subscription term with revenue recognized ratably over the contract period, and not to receive financing from our customers. Any potential financing fees are considered insignificant in the context of our contracts.

The adjusted opening balance of deferred revenue as of December 1, 2018 was \$3.00 billion. As of November 29, 2019, the balance of deferred revenue was \$3.50 billion, inclusive of \$265.4 million of non-cancellable and non-refundable committed funds and \$56.9 million of refundable customer deposits. Arrangements with non-cancellable and non-refundable committed funds provide our customers options to either renew monthly on-premise term-based licenses or use some or all funds to purchase other Adobe products or services. Refundable customer deposits represent arrangements in which the customer has a unilateral cancellation right for which we are obligated to refund amounts paid related to products or services not yet delivered or provided at the time of cancellation on a prorated basis.

ADOBE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Significant movements in the deferred revenue balance during the period consisted of increases due to payments received prior to transfer of control of the underlying performance obligations to the customer and deferred revenue assumed through business combinations, which were offset by decreases due to revenue recognized in the period. During the year ended November 29, 2019, approximately \$2.8 billion of revenue was recognized that was included in the adjusted opening balance of deferred revenue as of December 1, 2018.

Transaction price allocated to remaining performance obligations represents contracted revenue that has not yet been recognized, which includes deferred revenue and unbilled amounts that will be recognized as revenue in future periods. Transaction price allocated to the remaining performance obligation is influenced by several factors, including the timing of renewals and average contract terms. We applied practical expedients to exclude amounts related to performance obligations that are billed and recognized as they are delivered, optional purchases that do not represent material rights, sales- and usage-based royalties not yet consumed and any estimated amounts of variable consideration that are subject to constraint in accordance with the new revenue standard.

Remaining performance obligations were approximately \$9.82 billion as of November 29, 2019, which includes \$776.4 million of non-cancellable and non-refundable committed funds related to some of our enterprise customer agreements. Approximately 74% of the remaining performance obligations, excluding the aforementioned enterprise customer agreements, are expected to be recognized over the next 12 months with the remainder recognized thereafter.

Contract Acquisition Costs

We recognize an asset for the incremental costs of obtaining a contract with a customer if we expect the benefit of those costs to be longer than one year. We have determined that certain sales incentive programs meet the requirements to be capitalized.

The costs capitalized under the new revenue standard are primarily sales commissions paid to our sales force personnel. Capitalized costs may also include portions of fringe benefits and payroll taxes associated with compensation for incremental costs to acquire customer contracts and incentive payments to partners.

Capitalized costs to obtain a contract are amortized over the expected period of benefit, which we have determined, based on analysis, to be 5 years. Amortization of capitalized costs are included in sales and marketing expense in our Consolidated Statements of Income. During fiscal 2019, we amortized \$170.9 million of capitalized contract acquisition costs into sales and marketing expense. We did not incur any impairment losses.

The opening balance of capitalized contract acquisition costs as of December 1, 2018 was \$413.2 million. As of November 29, 2019, the balance of capitalized contract acquisition costs was \$473.7 million, of which \$314.7 million was long-term and included in other assets in the Consolidated Balance Sheets. The remaining balance of the capitalized costs to obtain contracts was current and included in prepaid expenses and other current assets.

Revenue Reserve

During fiscal 2019, 2018 and 2017, our revenue reserve activities were as follows:

(in thousands)	2019	2018	2017
Beginning balance	\$ 25,425	\$ 22,006	\$ 23,096
Impacts of adoption of the new revenue standard	(14,733)	—	—
Amount charged to revenue	18,276	65,241	61,031
Actual returns	(22,236)	(61,822)	(62,121)
Ending balance	<u>\$ 6,732</u>	<u>\$ 25,425</u>	<u>\$ 22,006</u>

ADOBE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Refund Liabilities

As part of our revenue reserves, we record refund liabilities for amounts that may be subject to future refunds, which include sales returns reserves and customer rebates and credits. Refund liabilities are included in accrued expenses on the Consolidated Balance Sheets.

The opening balance of refund liabilities as of December 1, 2018 was \$75.3 million. As of November 29, 2019, the balance of refund liabilities was \$126.1 million.

Significant Customers

For fiscal 2019, 2018 and 2017 there were no customers that represented at least 10% of net revenue. As of fiscal year end 2019 and 2018, no single customer was responsible for over 10% of our trade receivables.

NOTE 3. ACQUISITIONS

Allegorithmic

On January 23, 2019, we completed the acquisition of Allegorithmic, a privately held 3D editing and authoring software company for gaming and entertainment, and integrated it into our Digital Media reportable segment. Prior to the acquisition, we held an equity interest that was accounted for as an equity-method investment. We acquired the remaining equity interest for approximately \$106.2 million in cash consideration. The total purchase price, inclusive of the acquisition-date fair-value of our pre-existing equity interest, was approximately \$161.1 million.

In conjunction with the Allegorithmic acquisition, we separately recognized an investment gain of approximately \$42.0 million, which represents the difference between the \$54.8 million acquisition-date fair value of our pre-existing equity interest and our previous carrying amount.

Under the acquisition method of accounting, the total final purchase price was allocated to Allegorithmic's net tangible and intangible assets based upon their estimated fair values as of the acquisition date. The excess purchase price over the value of the net tangible and identifiable intangible assets was recorded as goodwill. Of the total purchase price, \$125.9 million was allocated to goodwill that was non-deductible for tax purposes, \$44.8 million to identifiable intangible assets and the remainder to net liabilities assumed.

Pro forma financial information has not been presented for the Allegorithmic acquisition as the impact to our Consolidated Financial Statements was not material.

Marketo

On October 31, 2018, we completed the acquisition of Marketo, a privately held marketing cloud platform company, for approximately \$4.73 billion of cash consideration. Adding Marketo's engagement platform to Adobe Experience Cloud furthers our long-term plan for strategic growth in the Digital Experience segment and enables us to offer a comprehensive set of solutions to enable customers across industries and companies automate and orchestrate their marketing activities. Under the terms of the Share Purchase Agreement ("Purchase Agreement"), we acquired all of the issued and outstanding shares of capital stock of Milestone Topco, Inc., a Delaware corporation ("Topco") and indirect parent company of Marketo, and other equity interests in Marketo. In connection with the acquisition, each Marketo equity award that was issued and outstanding was cancelled and extinguished in exchange for cash consideration. Also pursuant to the Purchase Agreement, upon closing of the transaction, cash was paid for the settlement of Marketo's long-term incentive plan, the settlement of Marketo's indebtedness and the acquisition of all remaining equity interests in Marketo K.K., a Japanese corporation and joint venture.

In connection with the acquisition, we entered into a credit agreement providing for a \$2.25 billion senior unsecured term loan ("Term Loan"). The proceeds of the Term Loan were used to fund a portion of the purchase price of the acquisition and pay fees and expenses incurred in connection with the acquisition. The Term Loan funds were received on October 31, 2018 upon closing of the acquisition. *See Note 17 for further details regarding our Term Loan.*

ADOBE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We integrated Marketo into our Digital Experience reportable segment and have included the financial results of Marketo in our Consolidated Financial Statements beginning on the acquisition date. The amounts of net revenue and net loss of Marketo included in our Consolidated Statements of Income from the acquisition date through November 30, 2018 were not material. The direct transaction costs associated with the acquisition were also not material.

Purchase Price Allocation

Under the purchase accounting method, the total final purchase price was allocated to Marketo's net tangible and intangible assets based upon their estimated fair values as of the acquisition date. The excess purchase price over the value of the net tangible and identifiable intangible assets was recorded as goodwill.

The table below represents the final purchase price allocation to the acquired net tangible and intangible assets of Marketo based on their estimated fair values as of October 31, 2018 and the associated estimated useful lives at that date. During fiscal 2019, we recorded immaterial purchase accounting adjustments based on changes to management's estimates and assumptions in regards to total purchase price, intangible assets, deferred revenue, tax liabilities assumed and their related impact to goodwill.

(in thousands)	Amount	Weighted Average Useful Life (years)
Customer contracts and relationships	\$ 577,500	11
Purchased technology	444,500	7
Backlog	105,500	2
Non-competition agreements	12,100	2
Trademarks	328,500	9
Total identifiable intangible assets	1,468,100	
Net liabilities assumed	(194,588)	N/A
Goodwill ⁽¹⁾	3,459,256	N/A
Total purchase price	\$ 4,732,768	

⁽¹⁾ Non-deductible for tax-purposes.

Identifiable intangible assets — Customer relationships consist of Marketo's contractual relationships and customer loyalty related to their enterprise and commercial customers as well as technology partner relationships. The estimated fair value of the customer contracts and relationships was determined based on projected cash flows attributable to the asset. Purchased technology acquired primarily consists of Marketo's cloud-based engagement marketing software platform. The estimated fair value of the purchased technology was determined based on the expected future cost savings resulting from ownership of the asset. Backlog relates to subscription contracts and professional services. Non-compete agreements include agreements with key Marketo employees that preclude them from competing against Marketo for a period of two years from the acquisition date. Trademarks include the Marketo trade name, which is well known in the marketing ecosystem. We amortize the fair value of these intangible assets on a straight-line basis over their respective estimated useful lives.

Goodwill — Approximately \$3.46 billion of goodwill has been allocated entirely to our Digital Experience reportable segment. Goodwill represents the excess of the purchase price over the fair value of the underlying acquired net tangible and intangible assets. The factors that contributed to the recognition of goodwill included securing buyer-specific synergies that increase revenue and profits and are not otherwise available to a marketplace participant, acquiring a talented workforce and cost savings opportunities.

Net liabilities assumed — Marketo's tangible assets and liabilities as of October 31, 2018 were reviewed and adjusted to their fair value as necessary. The net liabilities assumed included, among other items, \$102.6 million in accrued expenses, \$74.8 million in deferred revenue and \$182.6 million in deferred tax liabilities, which were partially offset by \$54.9 million in cash and cash equivalents and \$71.6 million in trade receivables acquired.

Deferred revenue — Included in net liabilities assumed is Marketo's deferred revenue which represents advance payments from customers related to subscription contracts and professional services. We estimated our obligation related to the deferred

ADOBE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

revenue using the cost build-up approach. The cost build-up approach determines fair value by estimating the direct and indirect costs related to supporting the obligation plus an assumed operating margin. The sum of the costs and assumed operating profit approximates, in theory, the amount that Marketo would be required to pay a third party to assume the obligation. The estimated costs to fulfill the obligation were based on the near-term projected cost structure for subscription and professional services. As a result, we recorded an adjustment to reduce Marketo's carrying value of deferred revenue to \$74.8 million, which represents our estimate of the fair value of the contractual obligations assumed.

Taxes — As part of our accounting for the Marketo acquisition, a portion of the overall purchase price was allocated to goodwill and acquired intangible assets. Amortization expense associated with acquired intangible assets is not deductible for tax purposes. Thus, approximately \$348.8 million, included in the net liabilities assumed, was established as a deferred tax liability for the future amortization of the intangible assets, and was partially offset by other tax assets of \$166.2 million, which primarily consist of net operating loss carryforwards.

Any impairment charges made in the future associated with goodwill will not be tax deductible and will result in an increased effective income tax rate in the quarter the impairment is recorded.

Unaudited Pro Forma Results

The financial information in the table below summarizes the combined results of operations of Adobe and Marketo, on a pro forma basis, as though the companies had been combined as of the beginning of the periods presented. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place on December 3, 2016 or of results that may occur in the future.

The following unaudited pro forma financial information for fiscal 2018 and 2017 combines the historical results for Adobe for the years ended November 30, 2018 and December 1, 2017 and the historical results of Marketo for the period January 1, 2018 through October 31, 2018 and the year ended December 31, 2017, respectively:

(in thousands)	2018	2017
Net revenues	\$ 9,338,790	\$ 7,568,713
Net income	\$ 2,362,238	\$ 1,404,864

Magento

On June 18, 2018, we completed our acquisition of Magento Commerce (“Magento”), a privately held commerce platform company, and integrated it into our Digital Experience reportable segment.

The table below represents the final purchase price allocation to the acquired net assets of Magento based on their estimated fair values as of June 18, 2018 and the associated estimated useful lives at that date. During fiscal 2019, we recorded immaterial purchase accounting adjustments based on changes to management’s estimates and assumptions in regards to net liabilities assumed and their related impact to goodwill.

(in thousands)	Amount	Weighted Average Useful Life (years)
Customer contracts and relationships	\$ 208,000	8
Purchased technology	84,200	5
In-process research and development ⁽¹⁾	39,100	N/A
Trademarks	21,100	3
Other intangibles	43,400	3
Total identifiable intangible assets	395,800	
Net liabilities assumed	(68,182)	N/A
Goodwill ⁽²⁾	1,316,983	N/A
Total purchase price	\$ 1,644,601	

ADOBE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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- (1) Capitalized as purchased technology and are considered indefinite lived until the completion or abandonment of the associated research and development efforts. Subsequent to the acquisition, the associated in-process research and development efforts for certain projects were completed and the rest were abandoned. The respective related amortization and write-off were each immaterial.
- (2) Non-deductible for tax purposes.

Pro forma financial information has not been presented for the Magento acquisition as the impact to our Consolidated Financial Statements was not material.

TubeMogul

On December 19, 2016, we completed our acquisition of TubeMogul, a publicly held video advertising platform company, and integrated it into our Digital Experience reportable segment.

Under the acquisition method of accounting, the total final purchase price was allocated to TubeMogul's net tangible and intangible assets based upon their estimated fair values as of December 19, 2016. During fiscal 2017, we recorded immaterial purchase accounting adjustments based on changes to management's estimates and assumptions in regards to tangible assets, liabilities assumed, and their related impact to goodwill. The total final purchase price for TubeMogul was \$560.8 million of which \$348.4 million was allocated to goodwill that was non-deductible for tax purposes, \$113.1 million to identifiable intangible assets and \$99.3 million to net assets acquired.

Pro forma financial information has not been presented for the TubeMogul acquisition as the impact to our Consolidated Financial Statements was not material.

Other

We also completed other immaterial business acquisitions during the fiscal years presented. Pro forma information has not been presented for these acquisitions as the impact to our Consolidated Financial Statements was not material.

NOTE 4. CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Cash equivalents consist of all highly liquid debt investments with remaining maturities of three months or less at the date of purchase. We classify our investments in marketable debt securities as "available-for-sale." We carry these investments at fair value, based on quoted market prices or other readily available market information. Unrealized gains and losses, net of taxes, are included in accumulated other comprehensive income, which is reflected as a separate component of stockholders' equity in our Consolidated Balance Sheets. Gains and losses are determined using the specific identification method and recognized when realized in our Consolidated Statements of Income. When we have determined that an other-than-temporary decline in fair value has occurred, the amount of the decline that is related to a credit loss is recognized in income.

ADOBE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Cash, cash equivalents and short-term investments consisted of the following as of November 29, 2019:

(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	\$ 466,941	\$ —	\$ —	\$ 466,941
Cash equivalents:				
Corporate debt securities	45,703	2	(1)	45,704
Money market mutual funds	2,049,057	—	—	2,049,057
Time deposits	88,519	—	—	88,519
Total cash equivalents	2,183,279	2	(1)	2,183,280
Total cash and cash equivalents	2,650,220	2	(1)	2,650,221
Short-term fixed income securities:				
Asset-backed securities	88,584	146	(9)	88,721
Corporate debt securities	1,408,332	4,251	(252)	1,412,331
Municipal securities	17,642	67	—	17,709
U.S. Treasury securities	7,992	2	—	7,994
Total short-term investments	1,522,550	4,466	(261)	1,526,755
Total cash, cash equivalents and short-term investments	\$ 4,172,770	\$ 4,468	\$ (262)	\$ 4,176,976

Cash, cash equivalents and short-term investments consisted of the following as of November 30, 2018:

(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	\$ 368,564	\$ —	\$ —	\$ 368,564
Cash equivalents:				
Money market mutual funds	1,234,188	—	—	1,234,188
Time deposits	40,023	—	—	40,023
Total cash equivalents	1,274,211	—	—	1,274,211
Total cash and cash equivalents	1,642,775	—	—	1,642,775
Short-term fixed income securities:				
Asset-backed securities	41,875	—	(367)	41,508
Corporate debt securities	1,546,860	44	(24,696)	1,522,208
Foreign government securities	4,179	—	(24)	4,155
Municipal securities	18,601	1	(286)	18,316
Total short-term investments	1,611,515	45	(25,373)	1,586,187
Total cash, cash equivalents and short-term investments	\$ 3,254,290	\$ 45	\$ (25,373)	\$ 3,228,962

See Note 5 for further information regarding the fair value of our financial instruments.

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ADOBE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the fair value and gross unrealized losses related to available-for-sale securities, aggregated by investment category, that have been in an unrealized loss position for less than twelve months, as of November 29, 2019 and November 30, 2018:

(in thousands)	2019		2018	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate debt securities	\$ 235,155	\$ (183)	\$ 538,109	\$ (7,966)
Asset-backed securities	6,651	(5)	6,696	(54)
Municipal securities	3,305	—	6,599	(81)
Total	\$ 245,111	\$ (188)	\$ 551,404	\$ (8,101)

There were 115 securities and 369 securities in an unrealized loss position for less than twelve months at November 29, 2019 and at November 30, 2018, respectively.

The following table summarizes the fair value and gross unrealized losses related to available-for-sale securities, aggregated by investment category, that were in a continuous unrealized loss position for more than twelve months, as of November 29, 2019 and November 30, 2018:

(in thousands)	2019		2018	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate debt securities	\$ 44,300	\$ (70)	\$ 969,701	\$ (16,730)
Asset-backed securities	6,754	(4)	34,812	(313)
Municipal securities	—	—	11,532	(205)
Foreign government securities	—	—	4,154	(24)
Total	\$ 51,054	\$ (74)	\$ 1,020,199	\$ (17,272)

There were 38 securities and 577 securities in an unrealized loss position for more than twelve months at November 29, 2019 and at November 30, 2018, respectively.

The following table summarizes the cost and estimated fair value of the fixed income securities classified as short-term investments based on stated effective maturities as of November 29, 2019:

(in thousands)	Amortized Cost	Estimated Fair Value
Due within one year	\$ 928,472	\$ 929,616
Due between one and two years	394,436	395,917
Due between two and three years	179,468	180,867
Due after three years	20,174	20,355
Total	\$ 1,522,550	\$ 1,526,755

We review our debt securities classified as short-term investments on a regular basis to evaluate whether or not any security has experienced an other-than-temporary decline in fair value. We consider factors such as the length of time and extent to which the market value has been less than the cost, the financial condition and near-term prospects of the issuer and our intent to sell, or whether it is more likely than not we will be required to sell the investment before recovery of the investment's amortized cost basis. If we believe that an other-than-temporary decline exists in one of these securities, we write down these investments to fair value. The portion of the write-down related to credit loss would be recorded to interest and other income (expense), net in our Consolidated Statements of Income. Any portion not related to credit loss would be recorded to accumulated other comprehensive income, which is reflected as a separate component of stockholders' equity in our Consolidated Balance Sheets. During fiscal 2019, 2018 and 2017, we did not consider any of our investments to be other-than-temporarily impaired.

ADOBE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 5. FAIR VALUE MEASUREMENTS***Assets and Liabilities Measured and Recorded at Fair Value on a Recurring Basis*

We measure certain financial assets and liabilities at fair value on a recurring basis. There have been no transfers between fair value measurement levels during the year ended November 29, 2019.

The fair value of our financial assets and liabilities at November 29, 2019 was determined using the following inputs:

(in thousands)

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
	Total	(Level 1)	(Level 2)	(Level 3)
Assets:				
Cash equivalents:				
Corporate debt securities	\$ 45,704	\$ —	\$ 45,704	\$ —
Money market mutual funds	2,049,057	2,049,057	—	—
Time deposits	88,519	88,519	—	—
Short-term investments:				
Asset-backed securities	88,721	—	88,721	—
Corporate debt securities	1,412,331	—	1,412,331	—
Municipal securities	17,709	—	17,709	—
U.S. Treasury securities	7,994	—	7,994	—
Prepaid expenses and other current assets:				
Foreign currency derivatives	28,829	—	28,829	—
Other assets:				
Deferred compensation plan assets	93,776	4,348	89,428	—
Total assets	\$ 3,832,640	\$ 2,141,924	\$ 1,690,716	\$ —
Liabilities:				
Accrued expenses:				
Treasury lock derivatives	\$ 29,652	\$ —	\$ 29,652	\$ —
Foreign currency derivatives	2,671	—	2,671	—
Interest rate swap derivatives	208	—	208	—
Total liabilities	\$ 32,531	\$ —	\$ 32,531	\$ —

ADOBE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The fair value of our financial assets and liabilities at November 30, 2018 was determined using the following inputs:

(in thousands)

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets		Significant Other Observable Inputs	Significant Unobservable Inputs
	Total	(Level 1)	(Level 2)	(Level 3)
Assets:				
Cash equivalents:				
Money market mutual funds	\$ 1,234,188	\$ 1,234,188	\$ —	\$ —
Time deposits	40,023	40,023	—	—
Short-term investments:				
Asset-backed securities	41,508	—	41,508	—
Corporate debt securities	1,522,208	—	1,522,208	—
Foreign government securities	4,155	—	4,155	—
Municipal securities	18,316	—	18,316	—
Prepaid expenses and other current assets:				
Foreign currency derivatives	44,259	—	44,259	—
Other assets:				
Deferred compensation plan assets	68,988	3,895	65,093	—
Total assets	\$ 2,973,645	\$ 1,278,106	\$ 1,695,539	\$ —
Liabilities:				
Accrued expenses:				
Foreign currency derivatives	\$ 816	\$ —	\$ 816	\$ —
Other liabilities:				
Interest rate swap derivatives	9,744	—	9,744	—
Total liabilities	\$ 10,560	\$ —	\$ 10,560	\$ —

See Note 4 for further information regarding the fair value of our financial instruments.

Our fixed income available-for-sale debt securities consist of high quality, investment grade securities from diverse issuers with a weighted average credit rating of A+. We value these securities based on pricing from independent pricing vendors who use matrix pricing valuation techniques including market approach methodologies that model information generated by market transactions involving identical or comparable assets, as well as discounted cash flow methodologies. Inputs include quoted prices in active markets for identical assets or inputs other than quoted prices that are observable either directly or indirectly in determining fair value, including benchmark yields, issuer spreads off benchmark yields, interest rates and U.S. Treasury or swap curves. We therefore classify all of our fixed income available-for-sale securities as Level 2. We perform routine procedures such as comparing prices obtained from multiple independent sources to ensure that appropriate fair values are recorded.

The fair values of our money market mutual funds and time deposits are based on the closing price of these assets as of the reporting date. We classify our money market mutual funds and time deposits as Level 1.

Our Level 2 over-the-counter foreign currency, Treasury lock and interest rate swap derivatives are valued using pricing models and discounted cash flow methodologies based on observable foreign exchange and interest rate data at the measurement date.

Our deferred compensation plan assets consist of money market mutual funds and other mutual funds.

ADOBE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The fair value of our senior notes was \$1.96 billion as of November 29, 2019, based on observable market prices in less active markets and categorized as Level 2. See Note 17 for further details regarding our debt.

NOTE 6. DERIVATIVE FINANCIAL INSTRUMENTS

We may use derivatives to partially offset our business exposure to foreign currency and interest rate risk on expected future cash flows, and certain existing assets and liabilities. We do not use any of our derivative instruments for trading purposes.

We enter into master netting arrangements to mitigate credit risk in derivative transactions by permitting net settlement of transactions with the same counterparty. We do not offset fair value amounts recognized for derivative instruments under master netting arrangements. We also enter into collateral security agreements with certain of our counterparties to exchange cash collateral when the net fair value of certain derivative instruments fluctuates from contractually established thresholds. Collateral posted is included in prepaid expenses and other current assets and collateral received is included in accrued expenses on our Consolidated Balance Sheets.

Cash Flow Hedges

In countries outside the United States, we transact business in U.S. Dollars and in various other currencies. We may use foreign exchange option contracts or forward contracts to hedge a portion of our forecasted foreign currency denominated revenue. These foreign exchange contracts, carried at fair value, have maturities of up to twelve months. As of November 29, 2019, total notional amounts of outstanding cash flow hedges were \$1.20 billion, hedging exposures denominated in Euros, British Pounds and Japanese Yen.

In June 2019, in anticipation of refinancing our \$2.25 billion Term Loan due April 30, 2020 and \$900 million notes payable due February 1, 2020, we entered into Treasury lock agreements with large financial institutions which fixed benchmark U.S. Treasury rates for an aggregate notional amount of \$1 billion of our future debt issuance. These derivative instruments hedge the impact of changes in the benchmark interest rate to future interest payments and will be terminated upon closing of our anticipated refinancing. Upon refinancing and termination of the derivative instruments, their fair value will be amortized over the term of our new debt to interest expense.

To receive hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedge, and the hedges must be highly effective in offsetting changes to future cash flows on hedged transactions. We record changes in fair value of these cash flow hedges in accumulated other comprehensive income (loss) in our Consolidated Balance Sheets, until the forecasted transaction occurs. When the forecasted transaction affects earnings, we reclassify the related gain or loss on the foreign currency and Treasury lock cash flow hedges to revenue and interest expense, respectively. In the event the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, we reclassify the gain or loss on the related cash flow hedge from accumulated other comprehensive income (loss) to the same income statement line item as the hedged item. If we do not elect hedge accounting, or the contract does not qualify for hedge accounting treatment, the changes in fair value from period to period are recorded in the same income statement line item as the hedged item.

We evaluate hedge effectiveness at the inception of the hedge prospectively, and on an ongoing basis both retrospectively and prospectively. We record any ineffective portion of the hedging instruments in interest and other income (expense), net on our Consolidated Statements of Income. The net gain or loss recognized in interest and other income (expense), net due to hedge ineffectiveness was insignificant for all fiscal years presented.

Effective in the third quarter of fiscal 2019, all changes in fair value of our foreign currency cash flow hedges are recorded in accumulated other comprehensive income (loss). Prior to this, we recorded the time value of purchased contracts in interest and other income (expense), net in our Consolidated Statements of Income. The impact of the de-designation of our hedges due to the change in methodology in the third quarter of fiscal 2019 was immaterial.

For fiscal 2019, 2018, and 2017, there were no net gains or losses recognized in income relating to hedges of forecasted transactions that did not occur.

ADOBE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fair Value Hedges

During the third quarter of fiscal 2014, we entered into interest rate swaps designated as a fair value hedge related to our \$900 million of 4.75% fixed interest rate senior notes due February 1, 2020 (the “2020 Notes”). In effect, the interest rate swaps convert the fixed interest rate on our 2020 Notes to a floating interest rate based on the London Interbank Offered Rate (“LIBOR”). Under the terms of the swaps, we pay monthly interest at the one-month LIBOR rate plus a fixed number of basis points on the \$900 million notional amount through February 1, 2020. In exchange, we receive 4.75% fixed rate interest from the swap counterparties. *See Note 17 for further details regarding our debt.*

The interest rate swaps are accounted for as fair value hedges and substantially offset the changes in fair value of the hedged portion of the underlying debt that are attributable to the changes in interest rate. Therefore, the gains and losses related to changes in the fair value of the interest rate swaps are included in interest and other income (expense), net in our Consolidated Statements of Income. As of November 29, 2019, the fair value of the interest rate swaps is recognized in accrued expenses on our Consolidated Balance Sheets with a corresponding offset to current debt.

Non-Designated Hedges

Our derivatives not designated as hedging instruments consist of foreign currency forward contracts that we primarily use to hedge monetary assets and liabilities denominated in non-functional currencies. The changes in fair value of these contracts is recorded to interest and other income (expense), net in our Consolidated Statements of Income. Changes in the fair value of the underlying assets and liabilities associated with the hedged risk are generally offset by the changes in the fair value of the related contracts.

As of November 29, 2019, total notional amounts of outstanding foreign currency forward contracts were \$702.4 million, primarily hedging exposures denominated in Euros, British Pounds, Japanese Yen and Indian Rupees. As of November 30, 2018, total notional amounts of outstanding contracts were \$427.9 million, primarily hedging exposures denominated in Euros, British Pounds, Japanese Yen and Indian Rupees. At November 29, 2019 and November 30, 2018, the outstanding balance sheet hedging derivatives had maturities of 180 days or less.

The fair value of derivative instruments on our Consolidated Balance Sheets as of November 29, 2019 and November 30, 2018 were as follows:

(in thousands)	2019		2018	
	Fair Value Asset Derivatives	Fair Value Liability Derivatives	Fair Value Asset Derivatives	Fair Value Liability Derivatives
Derivatives designated as hedging instruments:				
Foreign exchange option contracts ⁽¹⁾⁽²⁾	\$ 25,605	\$ —	\$ 40,191	\$ —
Treasury lock ⁽¹⁾	—	29,652	—	—
Interest rate swap ⁽³⁾	—	208	—	9,744
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts ⁽¹⁾	3,224	2,671	4,068	816
Total derivatives	<u>\$ 28,829</u>	<u>\$ 32,531</u>	<u>\$ 44,259</u>	<u>\$ 10,560</u>

⁽¹⁾ Fair value asset derivatives included in prepaid expenses and other current assets and fair value liability derivatives included in accrued expenses on our Consolidated Balance Sheets.

⁽²⁾ Hedging effectiveness expected to be recognized to income within the next 18 months, of which \$13.2 million is expected within the next 12 months.

⁽³⁾ Included in accrued expenses and other liabilities on our Consolidated Balance Sheets as of November 29, 2019 and November 30, 2018, respectively.

ADOBE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The effects of foreign currency derivative instruments designated as cash flow hedges and foreign currency derivative instruments not designated as hedges in our Consolidated Statements of Income for fiscal 2019, 2018 and 2017 were as follows:

(in thousands)	2019			2018			2017	
	Foreign Exchange Option Contracts	Foreign Exchange Forward Contracts	Treasury Lock	Foreign Exchange Option Contracts	Foreign Exchange Forward Contracts	Foreign Exchange Option Contracts	Foreign Exchange Forward Contracts	
Derivatives in cash flow hedging relationships:								
Net gain (loss) recognized in OCI, net of tax ⁽¹⁾	\$ 16,526	\$ —	\$(22,684)	\$ 74,080	\$ —	\$ 6,917	\$ —	
Net gain (loss) reclassified from accumulated OCI into income, net of tax ⁽²⁾⁽⁴⁾	39,111	—	(1,228)	48,647	—	32,852	—	
Net gain (loss) recognized in income ⁽³⁾⁽⁴⁾	(24,269)	—	—	(41,179)	—	(30,243)	—	
Derivatives not designated as hedging relationships:								
Net gain (loss) recognized in revenue	761	—	—	—	—	—	—	
Net gain (loss) recognized in interest and other income (expense), net	\$ —	\$ 4,229	\$ —	\$ —	\$ 1,529	\$ —	\$ 6,586	

(1) Net change in the fair value of the effective portion classified in other comprehensive income (“OCI”).

(2) Effective portion of the foreign currency and Treasury lock cash flow hedges classified as revenue and interest expense, respectively.

(3) Amount excluded from effectiveness testing and ineffective portion classified in interest and other income (expense), net.

(4) Starting the third quarter of fiscal 2019, all changes in fair value of our foreign currency cash flow hedges are recorded in accumulated other comprehensive income.

Net gains (losses) recognized in interest and other income (expense), net relating to foreign currency derivatives not designated as hedging instruments for fiscal 2019, 2018 and 2017 were as follows:

(in thousands)	2019	2018	2017
Gain (loss) on foreign currency assets and liabilities:			
Net realized gain (loss) recognized in other income	\$ (14,420)	\$ 882	\$ (6,142)
Net unrealized gain (loss) recognized in other income	8,050	(3,843)	(907)
	<u>(6,370)</u>	<u>(2,961)</u>	<u>(7,049)</u>
Gain (loss) on hedges of foreign currency assets and liabilities:			
Net realized gain (loss) recognized in other income	6,928	(2,042)	5,415
Net unrealized gain (loss) recognized in other income	(2,699)	3,571	1,171
	<u>4,229</u>	<u>1,529</u>	<u>6,586</u>
Net gain (loss) recognized in interest and other income (expense), net	<u>\$ (2,141)</u>	<u>\$ (1,432)</u>	<u>\$ (463)</u>

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ADOBE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7. PROPERTY AND EQUIPMENT

Property and equipment, net consisted of the following as of November 29, 2019 and November 30, 2018:

(in thousands)	2019	2018
Computers and other equipment	\$ 1,424,368	\$ 1,239,033
Buildings	482,797	485,024
Building improvements	307,396	285,564
Leasehold improvements	246,244	181,990
Land	144,871	145,065
Furniture and fixtures	143,739	121,206
Capital projects in-progress	112,232	23,026
Total	2,861,647	2,480,908
Less accumulated depreciation and amortization	(1,568,632)	(1,405,836)
Property and equipment, net	<u>\$ 1,293,015</u>	<u>\$ 1,075,072</u>

Depreciation and amortization expense of property and equipment for fiscal 2019, 2018 and 2017 was \$173.1 million, \$157.1 million and \$156.9 million, respectively.

Property and equipment, net, by geographic area as of November 29, 2019 and November 30, 2018 was as follows:

(in thousands)	2019	2018
Americas:		
United States	\$ 1,126,406	\$ 882,145
Other	2,735	30,475
Total Americas	1,129,141	912,620
EMEA	54,394	51,033
APAC	109,480	111,419
Property and equipment, net	<u>\$ 1,293,015</u>	<u>\$ 1,075,072</u>

NOTE 8. GOODWILL AND OTHER INTANGIBLES

Goodwill by reportable segment and activity for the years ended November 29, 2019 and November 30, 2018 was as follows:

(in thousands)	2017	Acquisitions	Other ⁽¹⁾	2018	Acquisitions	Other ⁽¹⁾	2019
Digital Media	\$ 2,724,747	\$ 15,247	\$ (2,481)	\$ 2,737,513	\$ 125,899	\$ (914)	\$ 2,862,498
Digital Experience	2,838,390	4,775,969	(29,246)	7,585,113	270	(15,103)	7,570,280
Publishing	258,424	—	(2)	258,422	—	(1)	258,421
Goodwill	<u>\$ 5,821,561</u>	<u>\$ 4,791,216</u>	<u>\$ (31,729)</u>	<u>\$ 10,581,048</u>	<u>\$ 126,169</u>	<u>\$ (16,018)</u>	<u>\$ 10,691,199</u>

⁽¹⁾ Amounts primarily consist of foreign currency translation adjustments.

Other intangibles, net, by reportable segment as of November 29, 2019 and November 30, 2018 were as follows:

(in thousands)	2019	2018
Digital Media	\$ 79,483	\$ 68,280
Digital Experience	1,640,925	2,000,718
Publishing	157	3
Other intangibles, net	<u>\$ 1,720,565</u>	<u>\$ 2,069,001</u>

ADOBE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Certain goodwill and other intangibles were misclassified between Digital Media and Digital Experience in the prior year, which have been recast in the above tables. The impact to our prior year disclosures was immaterial and there was no impact to the Consolidated Financial Statements resulting from the change in classification.

Other intangibles, net, as of November 29, 2019 and November 30, 2018 were as follows:

(in thousands)	2019			2018		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Customer contracts and relationships	\$ 1,219,029	\$ (436,545)	\$ 782,484	\$ 1,329,432	\$ (416,176)	\$ 913,256
Purchased technology	759,111	(223,115)	535,996	750,286	(118,812)	631,474
Trademarks	384,300	(73,546)	310,754	384,855	(25,968)	358,887
Backlog	143,400	(75,570)	67,830	147,300	(13,299)	134,001
Acquired rights to use technology	59,524	(46,823)	12,701	58,966	(48,770)	10,196
Other	23,745	(12,945)	10,800	51,096	(29,909)	21,187
Other intangibles, net	<u>\$ 2,589,109</u>	<u>\$ (868,544)</u>	<u>\$ 1,720,565</u>	<u>\$ 2,721,935</u>	<u>\$ (652,934)</u>	<u>\$ 2,069,001</u>

In fiscal 2019, and 2018, certain intangibles associated with our acquisitions in prior years became fully amortized and were removed from the Consolidated Balance Sheets.

Amortization expense related to other intangibles was \$402.3 million, \$182.6 million and \$153.6 million for fiscal 2019, 2018 and 2017 respectively. Of these amounts, \$227.0 million, \$91.3 million and \$76.1 million were included in cost of sales for fiscal 2019, 2018 and 2017 respectively.

Other intangibles are amortized over their estimated useful lives of 1 to 15 years. As of November 29, 2019, we expect the estimated aggregate amortization expense for each of the five succeeding fiscal years to be as follows:

(in thousands)	Other Intangibles
2020	\$ 364,683
2021	254,921
2022	222,810
2023	214,188
2024	201,953
Thereafter	462,010
Total expected amortization expense	<u>\$ 1,720,565</u>

ADOBE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9. ACCRUED EXPENSES

Accrued expenses as of November 29, 2019 and November 30, 2018 consisted of the following:

<i>(in thousands)</i>	2019	2018
Accrued compensation and benefits	\$ 317,897	\$ 313,874
Accrued bonuses	222,333	216,007
Accrued media costs	117,591	124,849
Accrued building rent	98,570	61,544
Taxes payable	82,988	57,525
Accrued corporate marketing	79,937	66,186
Sales and marketing allowances	74,163	44,968
Royalties payable	61,938	51,529
Fair value of derivatives	32,531	816
Accrued interest expense	28,878	29,481
Other	281,722	196,406
Accrued expenses	\$ 1,398,548	\$ 1,163,185

Accrued media costs primarily relate to our advertising platform offerings. We accrue for media costs related to impressions purchased from third-party ad inventory sources. Other primarily includes general corporate accruals for local and regional expenses and sales returns reserves.

NOTE 10. INCOME TAXES

Income before income taxes for fiscal 2019, 2018 and 2017 consisted of the following:

<i>(in thousands)</i>	2019	2018	2017
Domestic	\$ 437,603	\$ 542,948	\$ 1,056,156
Foreign	2,767,138	2,250,928	1,081,485
Income before income taxes	\$ 3,204,741	\$ 2,793,876	\$ 2,137,641

The provision for income taxes for fiscal 2019, 2018 and 2017 consisted of the following:

<i>(in thousands)</i>	2019	2018	2017
Current:			
United States federal	\$ 6,563	\$ 501,272	\$ 298,802
Foreign	211,174	140,308	60,962
State and local	30,893	28,612	33,578
Total current	248,630	670,192	393,342
Deferred:			
United States federal	22,528	(466,113)	48,905
Foreign	(11,675)	(9,734)	(4,242)
State and local	(6,200)	8,757	5,682
Total deferred	4,653	(467,090)	50,345
Provision for income taxes	\$ 253,283	\$ 203,102	\$ 443,687

ADOBE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***U.S. Tax Reform*

On December 22, 2017, the Tax Cuts and Jobs Act (the “Tax Act”) was enacted into law, which significantly changed existing U.S. tax law and includes many provisions applicable to us, such as reducing the U.S. federal statutory tax rate, imposing a one-time transition tax on deemed repatriation of deferred foreign income and adopting a territorial tax system. The Tax Act reduced the U.S. federal statutory tax rate from 35% to 21% effective January 1, 2018. For fiscal 2018, our blended U.S. federal statutory tax rate was 22.2%. This was the result of using the tax rate of 35% for the first month of fiscal 2018 and the reduced tax rate of 21% for the remaining eleven months of fiscal 2018. The Tax Act also required us to incur a one-time transition tax on deferred foreign income not previously subject to U.S. income tax at a rate of 15.5% for foreign cash and certain other net current assets, and 8% on the remaining income, in each case reduced by certain foreign tax credits. The Tax Act also included a provision to tax global intangible low-taxed income of foreign subsidiaries, a special tax deduction for foreign-derived intangible income and a base erosion anti-abuse tax measure that may tax certain payments between a U.S. corporation and its subsidiaries. These additional provisions of the Tax Act were effective for us beginning December 1, 2018.

During fiscal 2018, we recorded tax charges for the impact of the Tax Act using the current available information and technical guidance on the interpretations of the Tax Act. The accounting analysis was finalized based on the guidance, interpretations and data available as of November 30, 2018.

Certain international provisions introduced in the Tax Act are effective for us starting in fiscal 2019. As part of these provisions, an accounting policy election is available to either account for the tax effects of certain taxes in the period that is subject to such taxes or to provide deferred taxes for book and tax basis differences that upon reversal may be subject to such taxes. We elected to account for the tax effects of these provisions in the period that it is subject to such tax.

Reconciliation of Provision for Income Taxes

Total income tax expense differs from the expected tax expense (computed by multiplying the U.S. federal statutory rate of 21% in 2019, 22.2% in 2018 and 35% in 2017 by income before income taxes) as a result of the following:

(in thousands)	2019	2018	2017
Computed “expected” tax expense	\$ 672,996	\$ 620,240	\$ 748,174
State tax expense, net of federal benefit	23,510	25,214	25,131
Tax credits	(99,772)	(110,849)	(38,000)
Effects of non-U.S. operations	(224,214)	(384,393)	(215,490)
Stock-based compensation, net of tax deduction	(85,944)	(95,372)	(42,512)
Resolution of income tax examinations	(39,291)	(42,432)	(31,358)
Domestic manufacturing deduction benefit	—	(13,098)	(32,200)
Impacts of the U.S. Tax Act	2,955	185,997	—
Tax charge for licensing acquired company technology to foreign subsidiaries	—	—	24,771
Other	3,043	17,795	5,171
Provision for income taxes	\$ 253,283	\$ 203,102	\$ 443,687

ADOBE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred Tax Assets and Liabilities

The tax effects of the temporary differences that gave rise to significant portions of the deferred tax assets and liabilities as of November 29, 2019 and November 30, 2018 are presented below:

(in thousands)	2019	2018
Deferred tax assets:		
Acquired technology	\$ 4,568	\$ 9,561
Reserves and accruals	53,796	59,100
Deferred revenue	12,036	37,690
Stock-based compensation	106,911	89,240
Net operating loss carryforwards of acquired companies	137,151	209,445
Credit carryforwards	252,074	173,748
Capitalized expenses	44,912	19,074
Benefits relating to tax positions	47,458	51,965
Other	32,794	37,160
Total gross deferred tax assets	<u>691,700</u>	<u>686,983</u>
Deferred tax asset valuation allowance	(244,432)	(174,496)
Total deferred tax assets	<u>447,268</u>	<u>512,487</u>
Deferred tax liabilities:		
Depreciation and amortization	36,458	40,425
Undistributed earnings of foreign subsidiaries	51,883	17,556
Prepaid expenses	86,279	—
Acquired intangible assets	413,146	501,208
Total deferred tax liabilities	<u>587,766</u>	<u>559,189</u>
Net deferred tax liabilities	<u>\$ 140,498</u>	<u>\$ 46,702</u>

Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. Included in the deferred tax assets and liabilities for fiscal 2019 and 2018 are amounts related to various acquisitions. In assessing the realizability of deferred tax assets, management determined that it is not more likely than not that we will have sufficient taxable income in certain states and foreign jurisdictions to fully utilize available tax credits and other attributes. The deferred tax assets are offset by a valuation allowance to the extent it is more likely than not that they are not expected to be realized.

We provide U.S. income taxes on the earnings of foreign subsidiaries unless the subsidiaries' earnings are considered permanently reinvested outside the United States or are exempted from taxation as a result of the new territorial tax system. To the extent that the foreign earnings previously treated as permanently reinvested are repatriated, the related U.S. tax liability may be reduced by any foreign income taxes paid on these earnings. As of November 29, 2019, the cumulative amount of foreign earnings upon which U.S. income taxes have not been provided, and the corresponding unrecognized deferred tax liability, is not material.

As of November 29, 2019, we have net operating loss carryforwards of approximately \$421.6 million for federal, \$374.5 million for state and \$82.6 million for foreign. We also have federal, state and foreign tax credit carryforwards of approximately \$44.4 million, \$243.8 million and \$15.1 million, respectively. The net operating loss carryforward assets and tax credits will expire in various years from fiscal 2020 through 2038. The majority of the state tax credit carryforwards and a portion of the federal net operating loss carryforwards can be carried forward indefinitely. The net operating loss carryforward assets and certain credits are reduced by the valuation allowance and are subject to an annual limitation under Internal Revenue Code Section 382. The carrying amount of such assets and credits is expected to be fully realized.

As of November 29, 2019, a valuation allowance of \$244.4 million has been established for certain deferred tax assets related to certain federal, state and foreign assets. For fiscal 2019, the total change in the valuation allowance was \$69.9 million.

ADOBE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Accounting for Uncertainty in Income Taxes*

During fiscal 2019 and 2018, our aggregate changes in our total gross amount of unrecognized tax benefits are summarized as follows:

(in thousands)	2019	2018
Beginning balance	\$ 196,152	\$ 172,945
Gross increases in unrecognized tax benefits – prior year tax positions	14,850	16,191
Gross decreases in unrecognized tax benefits – prior year tax positions	(2,282)	(4,000)
Gross increases in unrecognized tax benefits – current year tax positions	18,526	60,721
Gross decreases in unrecognized tax benefits – current year tax positions	(2,879)	—
Settlements with taxing authorities	(230)	—
Lapse of statute of limitations	(49,813)	(45,922)
Foreign exchange gains and losses	(987)	(3,783)
Ending balance	\$ 173,337	\$ 196,152

The combined amount of accrued interest and penalties related to tax positions taken on our tax returns were approximately \$25.1 million and \$24.6 million for fiscal 2019 and 2018, respectively. These amounts were included in long-term income taxes payable in their respective years.

We file income tax returns in the United States on a federal basis and in many U.S. state and foreign jurisdictions. We are subject to the continual examination of our income tax returns by the U.S. Internal Revenue Service (“IRS”) and other domestic and foreign tax authorities. Our major tax jurisdictions are Ireland, California and the United States. For Ireland, California and the United States, the earliest fiscal years open for examination are 2008, 2015 and 2016, respectively. 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 these examinations. 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.

The timing of the resolution of income tax examinations is highly uncertain as are the amounts and timing of tax payments that are part of any audit settlement process. These events could cause large fluctuations in the balance sheet classification of our tax assets and liabilities. We believe that within the next 12 months, it is reasonably possible that either certain audits will conclude or statutes of limitations on certain income tax examination periods will expire, or both. Given the uncertainties described above, we can only determine a range of estimated potential decreases in underlying unrecognized tax benefits ranging from \$0 to approximately \$20 million.

NOTE 11. BENEFIT PLANS

Retirement Savings Plan

In 1987, we adopted an Employee Investment Plan, qualified under Section 401(k) of the Internal Revenue Code, which is a retirement savings plan covering substantially all of our U.S. employees, now referred to as the Adobe Inc. 401(k) Retirement Savings Plan. Under the plan, eligible employees may contribute up to 65% of their pretax or after-tax salary, subject to the IRS annual contribution limits. In fiscal 2019, we matched 50% of the first 6% of the employee’s eligible compensation. We contributed \$51.7 million, \$41.0 million and \$34.3 million in fiscal 2019, 2018 and 2017, respectively. We are under no obligation to continue matching future employee contributions and, at our discretion, may change our practices at any time.

Deferred Compensation Plan

On September 21, 2006, the Board of Directors approved the Adobe Inc. Deferred Compensation Plan, effective December 2, 2006 (the “Deferred Compensation Plan”). The Deferred Compensation Plan is an unfunded, non-qualified, deferred compensation arrangement under which certain executives and members of the Board of Directors are able to defer a portion of their annual compensation. Participants may elect to contribute up to 75% of their base salary and 100% of other specified compensation, including commissions, bonuses, performance awards, time-based restricted stock units and directors’ fees. Participants are able



ADOBE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

to elect the payment of benefits to begin on a specified date at least three years after the end of the plan year in which election is made or vests. For cash benefit elections, distributions are made in cash and in the form of a lump sum, or five, ten, or fifteen-year annual installments. For stock benefit elections, distributions are settled in stock and in the form of a lump sum payment only. Beginning January 1, 2020, our updated Deferred Compensation Plan will no longer allow participants, except our Board of Directors, to make stock benefit elections.

As of November 29, 2019 and November 30, 2018, the invested amounts under the Deferred Compensation Plan total \$93.8 million and \$69.0 million, respectively and were recorded as other assets on our Consolidated Balance Sheets. As of November 29, 2019 and November 30, 2018, \$108.8 million and \$84.0 million, respectively, were recorded as long-term liabilities to recognize undistributed deferred compensation due to employees.

NOTE 12. STOCK-BASED COMPENSATION

Our stock-based compensation programs are long-term retention programs that are intended to attract, retain and provide incentives for employees, officers and directors, and to align stockholder and employee interests. We have the following stock-based compensation plans and programs:

Restricted Stock Units

Prior to April 2019, we granted restricted stock units and performance awards to eligible employees under our 2003 Equity Incentive Plan, as amended (“2003 Plan”). In April 2019, our stockholders approved the 2019 Equity Incentive Plan (“2019 Plan”) which replaced the 2003 Plan.

Beginning January 2019, restricted stock units granted as part of our annual review process or for promotions vest over four years. Restricted stock units granted as part of our annual review process or for promotions with grant dates prior to January 2019 continue to vest over three years. Restricted stock units granted to new hires generally vest over four years. Certain grants have other vesting periods approved by our Board of Directors or an authorized committee. We grant performance awards to officers and key employees which cliff-vest after three years.

As of November 29, 2019, we had reserved 46.0 million shares of common stock for issuance under our 2019 Plan and had 44.1 million shares available for grant.

Employee Stock Purchase Plan

Our 1997 Employee Stock Purchase Plan (“ESPP”) allows eligible employee participants to purchase shares of our common stock at a discount through payroll deductions. The ESPP consists of a twenty-four-month offering period with four six-month purchase periods in each offering period. Employees purchase shares in each purchase period at 85% of the market value of our common stock at either the beginning of the offering period or the end of the purchase period, whichever price is lower. The ESPP will continue until the earlier of termination by the Board of Directors or the date on which all of the shares available for issuance under the plan have been issued.

As of November 29, 2019, we had reserved 93.0 million shares of our common stock for issuance under the ESPP and approximately 3.8 million shares remain available for future issuance.

Performance Share Programs

Our 2019, 2018 and 2017 Performance Share Programs aim to help focus key employees on building stockholder value, provide significant award potential for achieving outstanding Company performance and enhance the ability of the Company to attract and retain highly talented and competent individuals. The Executive Compensation Committee of our Board of Directors approves the terms of each of our Performance Share Programs, including the award calculation methodology, under the terms of our 2003 Plan. Shares may be earned based on the achievement of an objective relative total stockholder return measured over a three-year performance period. Performance share awards will be awarded and fully vest upon the later of the Executive Compensation Committee’s certification of the level of achievement or the three-year anniversary of each grant. Program participants generally have the ability to receive up to 200% of the target number of shares originally granted.

On January 24, 2018, the Executive Compensation Committee approved the 2019 Performance Share Program, the terms of which are similar to prior year performance share programs as discussed above.

ADOBE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of November 29, 2019, the shares awarded under our 2019, 2018 and 2017 Performance Share Programs remain outstanding and are yet to be achieved.

Issuance of Shares

Upon vesting of restricted stock units and performance shares, purchases of shares under the ESPP and exercise of stock options, we will issue treasury stock. If treasury stock is not available, common stock will be issued. In order to minimize the impact of on-going dilution from exercises of stock options and vesting of restricted stock units and performance shares, we instituted a stock repurchase program. *See Note 14 for information regarding our stock repurchase programs.*

Valuation of Stock-Based Compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award.

Our performance share awards are valued using a Monte Carlo Simulation model. The fair value of the awards are fixed at grant date and amortized over the longer of the remaining performance or service period.

We use the Black-Scholes option pricing model to determine the fair value of ESPP shares. The determination of the fair value of stock-based payment awards on the date of grant using an option pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the expected term of the awards, actual and projected employee stock option exercise behaviors, a risk-free interest rate and any expected dividends.

The expected term of ESPP shares is the average of the remaining purchase periods under each offering period. The assumptions used to value employee stock purchase rights were as follows:

	2019	2018	2017
Expected life (in years)	0.5 - 2.0	0.5 - 2.0	0.5 - 2.0
Volatility	30% - 35%	26% - 29%	22% - 27%
Risk free interest rate	1.78% - 2.47%	1.54% - 2.52%	0.62% - 1.41%

Summary of Restricted Stock Units

Restricted stock unit activity for fiscal 2019, 2018 and 2017 was as follows:

(in thousands)	2019	2018	2017
Beginning outstanding balance	8,668	9,304	8,316
Awarded	4,598	4,012	5,018
Released	(3,847)	(3,988)	(3,859)
Forfeited	(785)	(660)	(766)
Increase due to acquisition	—	—	595
Ending outstanding balance	<u>8,634</u>	<u>8,668</u>	<u>9,304</u>

The weighted average grant date fair values of restricted stock units granted during fiscal 2019, 2018 and 2017 were \$253.91, \$208.73 and \$120.33, respectively. The total fair value of restricted stock units vested during fiscal 2019, 2018 and 2017 was \$969.6 million, \$837.3 million and \$472.0 million, respectively.

ADOB^E INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Information regarding restricted stock units outstanding at November 29, 2019, November 30, 2018 and December 1, 2017 is summarized below:

	Number of Shares (thousands)	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value ^(*) (millions)
2019			
Restricted stock units outstanding	8,634	1.12	\$ 2,672.6
Restricted stock units expected to vest	7,987	1.05	\$ 2,472.2
2018			
Restricted stock units outstanding	8,668	1.06	\$ 2,174.7
Restricted stock units expected to vest	8,049	1.01	\$ 2,019.5
2017			
Restricted stock units outstanding	9,304	1.11	\$ 1,670.2
Restricted stock units expected to vest	8,608	1.05	\$ 1,545.3

^(*) The intrinsic value is calculated as the market value as of the end of the fiscal period. As reported by the NASDAQ Global Select Market, the market values as of November 29, 2019, November 30, 2018 and December 1, 2017 were \$309.53, \$250.89 and \$179.52, respectively.

Summary of Performance Shares

Performance share activity for fiscal 2019, 2018 and 2017 was as follows:

<i>(in thousands)</i>	2019		2018		2017	
	Shares Granted ⁽¹⁾	Maximum Shares Eligible to Receive	Shares Granted ⁽²⁾	Maximum Shares Eligible to Receive	Shares Granted ⁽³⁾	Maximum Shares Eligible to Receive
Beginning outstanding balance	1,148	2,296	1,534	3,068	1,630	3,261
Awarded	722	614	837	628	1,082	1,040
Achieved	(830)	(830)	(1,050)	(1,053)	(1,135)	(1,147)
Forfeited	(82)	(164)	(173)	(347)	(43)	(86)
Ending outstanding balance	<u>958</u>	<u>1,916</u>	<u>1,148</u>	<u>2,296</u>	<u>1,534</u>	<u>3,068</u>

⁽¹⁾ Shares awarded during fiscal 2019 include 0.4 million additional shares awarded for the final achievement of the 2016 Performance Share Program which was certified in the first quarter of fiscal 2019. The remaining awarded shares were for the 2019 Performance Share Program. Shares achieved during fiscal 2019 resulted from 200% achievement of target for the 2016 Performance Share Program.

⁽²⁾ Shares awarded during fiscal 2018 include 0.5 million additional shares awarded for the final achievement of the 2015 Performance Share Program which was certified in the first quarter of fiscal 2018. The remaining awarded shares were for the 2018 Performance Share Program. Shares achieved during fiscal 2018 resulted from 200% achievement of target for the 2015 Performance Share Program.

⁽³⁾ Shares awarded during fiscal 2017 include 0.6 million additional shares awarded for the final achievement of the 2014 Performance Share Program which was certified in the first quarter of fiscal 2017. The remaining awarded shares were for the 2017 Performance Share Program. Shares achieved during fiscal 2017 resulted from 198% achievement of target for the 2014 Performance Share Program.

The total fair value of performance awards vested during fiscal 2019, 2018 and 2017 was \$203.8 million, \$208.2 million and \$127.4 million, respectively.

ADOBE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Summary of Employee Stock Purchase Plan Shares*

The weighted average subscription date fair value of shares under the ESPP during fiscal 2019, 2018 and 2017 were \$72.98, \$53.12 and \$29.86, respectively. Employees purchased 1.5 million shares at an average price of \$150.55, 1.8 million shares at an average price of \$104.94, and 1.9 million shares at an average price of \$77.63 for fiscal 2019, 2018 and 2017, respectively. The intrinsic value of shares purchased during fiscal 2019, 2018 and 2017 was \$178.8 million, \$198.9 million and \$97.7 million, respectively. The intrinsic value is calculated as the difference between the market value on the date of purchase and the purchase price of the shares.

Grants to Executive Officers

All equity awards granted to executive officers are made after a review by and with the approval of the Executive Compensation Committee of the Board of Directors.

Grants to Non-Employee Directors

Although the 2003 and 2019 Plans provide for the granting of non-qualified stock options and restricted stock units to non-employee directors, restricted stock units are the primary form of our grants to non-employee directors. The initial equity grant to new non-employee directors and annual equity grants to existing non-employee directors are restricted stock unit awards, each grant having an aggregate value of \$0.3 million based on the average stock price over the 30 calendar days ending on the day before the date of grant and vest 100% on the day preceding the next annual meeting. The actual target grant value of initial equity grants will be prorated based on the number of days remaining before the next annual meeting or the date of the first anniversary of our last annual meeting if the next annual meeting is not yet scheduled.

Restricted stock units granted to directors for fiscal 2019, 2018 and 2017 were as follows:

<i>(in thousands)</i>	2019	2018	2017
Annual equity grants to existing directors	10	11	18
Initial equity grants to new directors	1	1	—

Compensation Costs

We recognize the estimated compensation cost of restricted stock units, net of estimated forfeitures, on a straight-line basis over the requisite service period of the entire award, which is generally the vesting period. The estimated compensation cost is based on the fair value of our common stock on the date of grant.

We also recognize the estimated compensation cost of performance shares, net of estimated forfeitures, on a straight-line basis over the requisite performance period or service period of the entire award, whichever is longer. Our performance share awards are earned upon achievement of an objective total stockholder return measure at the end of the three-year performance period, as described above.

We estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate forfeitures and record stock-based compensation expense only for those awards that are expected to vest.

As of November 29, 2019, there was \$1.36 billion of unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock-based awards and purchase rights which will be recognized over a weighted average period of 1.9 years. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

ADOBE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Total stock-based compensation costs that have been included in our Consolidated Statements of Income for fiscal 2019, 2018 and 2017 were as follows:

(in thousands)	Income Statement Classifications							Total ⁽¹⁾
	Cost of Revenue-Subscription	Cost of Revenue-Services and Support	Research and Development	Sales and Marketing	General and Administrative			
Restricted Stock Units and Performance Share Awards								
2019	\$ 22,822	\$ 18,535	\$ 338,483	\$ 206,371	\$ 98,886	\$ 685,097		
2018	\$ 17,515	\$ 12,111	\$ 253,078	\$ 178,548	\$ 77,462	\$ 538,714		
2017	\$ 16,792	\$ 9,602	\$ 161,366	\$ 139,047	\$ 77,133	\$ 403,940		
Stock Purchase Rights and Options								
2019	\$ 5,823	\$ 7,271	\$ 36,663	\$ 42,405	\$ 10,446	\$ 102,608		
2018	\$ 4,102	\$ 8,286	\$ 23,918	\$ 27,252	\$ 7,290	\$ 70,848		
2017	\$ 180	\$ 6,661	\$ 20,126	\$ 18,592	\$ 4,973	\$ 50,532		

⁽¹⁾ During fiscal 2019, 2018 and 2017, we recorded tax benefits related to stock-based compensation costs of \$248.4 million, \$222.4 million and \$153.2 million, respectively.

NOTE 13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The components of accumulated other comprehensive income (loss) and activity, net of related taxes, for fiscal 2019 were as follows:

(in thousands)	November 30, 2018	Increase / Decrease	Reclassification Adjustments	November 29, 2019	
				Unrealized gains / losses on available-for-sale securities:	Taxes
Unrealized gains on available-for-sale securities	\$ 44	\$ 4,594	\$ (171)	\$ 4,467	
Unrealized losses on available-for-sale securities	(25,374)	24,815	295		(264)
Total net unrealized gains / losses on available-for-sale securities	(25,330)	29,409	124	(1)	4,203
Net unrealized gains / losses on derivative instruments designated as hedging instruments	21,732	294	(44,334)	(2)	(22,308)
Cumulative foreign currency translation adjustments	(144,532)	(25,397)	—		(169,929)
Total accumulated other comprehensive income (loss), net of taxes	\$ (148,130)	\$ 4,306	\$ (44,210)	\$ (188,034)	

⁽¹⁾ Reclassification adjustments for gains / losses on available-for-sale securities are classified in interest and other income (expense), net.

⁽²⁾ Reclassification adjustments for gains / losses on foreign currency hedges are classified in revenue and reclassification adjustments for gains / losses on Treasury lock hedges are classified in interest expense.

ADOBE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth the taxes related to each component of other comprehensive income for fiscal 2019, 2018 and 2017:

(in thousands)	2019	2018	2017
Available-for-sale securities:			
Unrealized gains / losses	\$ —	\$ —	\$ 663
Reclassification adjustments	—	—	(491)
Subtotal available-for-sale securities	—	—	172
Derivatives designated as hedging instruments:			
Unrealized gains / losses	6,968	—	—
Reclassification adjustments	(383)	(1,946)	(732)
Subtotal derivatives designated as hedging instruments	6,585	(1,946)	(732)
Foreign currency translation adjustments	—	(1,742)	3,005
Total taxes, other comprehensive income (loss)	\$ 6,585	\$ (3,688)	\$ 2,445

NOTE 14. STOCK REPURCHASE PROGRAM

To facilitate our stock repurchase program, designed to return value to our stockholders and minimize dilution from stock issuances, we may repurchase shares in the open market or enter into structured repurchase agreements with third parties. In May 2018, our Board of Directors granted us an authority to repurchase up to \$8 billion in common stock through the end of fiscal 2021.

During fiscal 2019, 2018 and 2017, we entered into several structured stock repurchase agreements with large financial institutions, whereupon we provided them with prepayments totaling \$2.75 billion, \$2.05 billion, and \$1.10 billion, respectively. We enter into these agreements in order to take advantage of repurchasing shares at a guaranteed discount to the Volume Weighted Average Price (“VWAP”) of our common stock over a specified period of time. We only enter into such transactions when the discount that we receive is higher than the foregone return on our cash prepayments to the financial institutions. There were no explicit commissions or fees on these structured repurchases. Under the terms of the agreements, there is no requirement for the financial institutions to return any portion of the prepayment to us.

The financial institutions agree to deliver shares to us at monthly intervals during the contract term. The parameters used to calculate the number of shares deliverable are: the total notional amount of the contract, the number of trading days in the contract, the number of trading days in the interval and the average VWAP of our stock during the interval less the agreed upon discount. We repurchased approximately 9.9 million shares at an average price of \$270.23 per share in fiscal 2019, 8.7 million shares at an average price of \$230.43 per share in fiscal 2018, and 8.2 million shares at an average price of \$134.20 per share in fiscal 2017.

For fiscal 2019, 2018 and 2017, the prepayments were classified as treasury stock on our Consolidated Balance Sheets at the payment date, though only shares physically delivered to us by November 29, 2019, November 30, 2018 and December 1, 2017 were excluded from the computation of earnings per share. As of November 29, 2019, \$229.2 million of prepayments remained under the agreement.

Subsequent to November 29, 2019, we entered into a structured stock repurchase agreement with a large financial institution whereupon we provided them with a prepayment of \$850 million. This amount will be classified as treasury stock on our Consolidated Balance Sheets. Upon completion of the \$850 million stock repurchase agreement, \$4.25 billion remains under our May 2018 authority.

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ADOBE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. NET INCOME PER SHARE

Basic net income per share is computed using the weighted average number of common shares outstanding for the period, excluding unvested restricted stock units and performance awards. Diluted net income per share is based upon the weighted average common shares outstanding for the period plus dilutive potential common shares, including unvested restricted stock units, purchase rights, performance awards and stock options using the treasury stock method.

The following table sets forth the computation of basic and diluted net income per share for fiscal 2019, 2018 and 2017:

(in thousands, except per share data)	2019	2018	2017
Net income	\$ 2,951,458	\$ 2,590,774	\$ 1,693,954
Shares used to compute basic net income per share	486,291	490,564	493,632
Dilutive potential common shares:			
Restricted stock units and performance share awards	4,875	7,142	7,161
Stock purchase rights and options	406	137	330
Shares used to compute diluted net income per share	<u>491,572</u>	<u>497,843</u>	<u>501,123</u>
Basic net income per share	<u>\$ 6.07</u>	<u>\$ 5.28</u>	<u>\$ 3.43</u>
Diluted net income per share	<u>\$ 6.00</u>	<u>\$ 5.20</u>	<u>\$ 3.38</u>
Anti-dilutive potential common shares ⁽¹⁾	<u>175</u>	<u>209</u>	<u>141</u>

⁽¹⁾ Potential common stock equivalents not included in the calculation of diluted net income per share as the effect would have been anti-dilutive.

NOTE 16. COMMITMENTS AND CONTINGENCIES

Lease Commitments

We lease certain of our facilities and some of our equipment under non-cancellable operating lease arrangements that expire at various dates through 2031. We also have one land lease that expires in 2091. Rent expense includes base contractual rent and variable costs such as building expenses, utilities, taxes, insurance and equipment rental. Rent expense for these leases was approximately \$170.5 million, \$137.2 million and \$115.4 million in fiscal 2019, 2018 and 2017, respectively. Our sublease income was immaterial for all periods presented.

Unconditional Purchase Obligations

Our purchase obligations consist of agreements to purchase goods and services entered into in the ordinary course of business. The following table summarizes our non-cancellable unconditional purchase obligations and operating leases for each of the next five years and thereafter as of November 29, 2019:

(in thousands)	Operating Leases		
Fiscal Year	Purchase Obligations	Future Minimum Lease Payments	Future Minimum Sublease Income
2020	\$ 545,042	\$ 98,200	\$ 9,523
2021	407,528	91,866	9,000
2022	528,266	81,493	6,362
2023	555,658	68,539	2,327
2024	—	60,691	—
Thereafter	—	337,903	—
Total	<u>\$ 2,036,494</u>	<u>\$ 738,692</u>	<u>\$ 27,212</u>

ADOBE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Royalties

We have royalty commitments associated with the licensing of certain offerings and products. Royalty expense is generally based on a dollar amount per unit or a percentage of the underlying revenue. Royalty expense, which was recorded under our cost of revenue on our Consolidated Statements of Income, was approximately \$153.7 million, \$119.1 million and \$100.9 million in fiscal 2019, 2018 and 2017, respectively.

Indemnifications

In the ordinary course of business, we provide indemnifications of varying scope to customers and channel partners against claims of intellectual property infringement made by third parties arising from the use of our products and from time to time, we are subject to claims by our customers under these indemnification provisions. Historically, costs related to these indemnification provisions have not been significant and we are unable to estimate the maximum potential impact of these indemnification provisions on our future results of operations.

To the extent permitted under Delaware law, we have agreements whereby we indemnify our officers and directors for certain events or occurrences while the officer or director is or was serving at our request in such capacity. The indemnification period covers all pertinent events and occurrences during the officer's or director's lifetime. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have director and officer insurance coverage that reduces our exposure and enables us to recover a portion of any future amounts paid. We believe the estimated fair value of these indemnification agreements in excess of applicable insurance coverage is minimal.

Legal Proceedings

In connection with disputes relating to the validity or alleged infringement of third-party intellectual property 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 may be 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. Third-party intellectual property disputes could subject us to significant liabilities, require us to enter into royalty and licensing arrangements on unfavorable terms, prevent us from licensing certain of our products or offering certain of our services, subject us to injunctions restricting our sale of products or services, 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 and service agreements.

In addition to intellectual property disputes, we are subject to legal proceedings, claims and investigations in the ordinary course of business, including claims relating to commercial, employment and other matters. Some of these disputes and legal proceedings may include speculative claims for substantial or indeterminate amounts of damages. We consider all claims on a quarterly basis in accordance with GAAP and based on known facts assess whether potential losses are considered reasonably possible, probable and estimable. Based upon this assessment, we then evaluate disclosure requirements and whether to accrue for such claims in our financial statements. This determination is then reviewed and discussed with our Audit Committee and our independent registered public accounting firm.

We make a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Unless otherwise specifically disclosed in this note, we have determined that no provision for liability nor disclosure is required related to any claim against us because: (a) there is not a reasonable possibility that a loss exceeding amounts already recognized (if any) may be incurred with respect to such claim; (b) a reasonably possible loss or range of loss cannot be estimated; or (c) such estimate is immaterial.

All legal costs associated with litigation are expensed as incurred. Litigation is inherently unpredictable. However, we believe that we have valid defenses with respect to the legal matters pending against us. It is possible, nevertheless, that our consolidated financial position, cash flows or results of operations could be negatively affected by an unfavorable resolution of one or more of such proceedings, claims or investigations.

ADOBE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In connection with our anti-piracy efforts, conducted both internally and through organizations such as the Business Software Alliance, from time to time we undertake litigation against alleged copyright infringers. Such lawsuits may lead to counter-claims alleging improper use of litigation or violation of other laws. We believe we have valid defenses with respect to such counter-claims; however, it is possible that our consolidated financial position, cash flows or results of operations could be negatively affected in any particular period by the resolution of one or more of these counter-claims.

NOTE 17. DEBT

Our debt as of November 29, 2019 and November 30, 2018 consisted of the following:

(in thousands)	2019	2018
Current debt:		
Term loan	\$ 2,249,784	\$ —
Notes	899,767	—
Fair value of interest rate swap	(208)	—
Current debt	3,149,343	—
Long-term debt:		
Term loan	—	2,248,427
Notes	988,924	1,886,117
Fair value of interest rate swap	—	(9,744)
Long-term debt	988,924	4,124,800
Total carrying value of debt	\$ 4,138,267	\$ 4,124,800

Term Loan Credit Agreement

In October 2018, we entered into a credit agreement providing for an up to \$2.25 billion senior unsecured term loan for the purpose of partially funding the purchase price for our acquisition of Marketo and the related fees and expenses incurred in connection with the acquisition. The Term Loan funds were received on October 31, 2018 upon closing of the acquisition and will mature 18 months following the initial funding date. In addition, we incurred issuance costs of \$0.7 million which are amortized to interest expense over the term using the straight-line method. The Term Loan ranks equally with our other unsecured and unsubordinated indebtedness. There are no scheduled principal amortization payments prior to maturity and the Term Loan may be prepaid and terminated at our election at any time without penalty or premium. At our election, the Term Loan will bear interest at either (i) LIBOR plus a margin, based on our debt ratings, ranging from 0.500% to 1.000% or (ii) a base rate plus a margin, based on our debt ratings, ranging from 0.040% to 0.110%. Interest is payable periodically, in arrears, at the end of each interest period we elect. During fiscal 2019, we made interest payments on our Term Loan totaling \$69.9 million. The Term Loan credit agreement contains customary representations, warranties, affirmative and negative covenants, events of default and indemnification provisions in favor of the lenders similar to those contained in the Revolving Credit Agreement, including the financial covenant. As of November 29, 2019, we were in compliance with all covenants. During the second quarter of fiscal 2019, we reclassified the Term Loan as current debt in our Consolidated Balance Sheets. As of November 29, 2019, the carrying value of the Term Loan was \$2.25 billion which is net of debt issuance costs. We intend to refinance the Term Loan on or before the due date.

Senior Notes

In February 2010, we issued \$900 million of 4.75% senior notes due February 1, 2020. Our proceeds were approximately \$894.5 million which is net of an issuance discount of \$5.5 million. In addition, we incurred issuance costs of \$6.4 million. Both the discount and issuance costs are being amortized to interest expense over the term of the 2020 Notes using the effective interest method. The effective interest rate including the discount and issuance costs was 4.92%. Interest is payable semi-annually, in arrears, on February 1 and August 1, and commenced on August 1, 2010.

In June 2014, we entered into interest rate swaps with a total notional amount of \$900 million designated as a fair value hedge related to our 2020 Notes. The interest rate swaps effectively convert the fixed interest rate on our 2020 Notes to a floating interest rate based on LIBOR. Under the terms of the swap, we will pay monthly interest at the one-month LIBOR interest rate

ADOBE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

plus a fixed number of basis points on the \$900 million notional amount. In exchange, we will receive 4.75% fixed rate interest from the swap counterparties. The fair value of the interest rate swaps is included in the carrying value of our debt in the Consolidated Balance Sheets. *See Note 6 for further details regarding our interest rate swap derivatives.*

In January 2015, we issued \$1 billion of 3.25% senior notes due February 1, 2025 (the “2025 Notes”). Our proceeds were approximately \$989.3 million which is net of an issuance discount of \$10.7 million. In addition, we incurred issuance costs of \$7.9 million. Both the discount and issuance costs are being amortized to interest expense over the term of the 2025 Notes using the effective interest method. The effective interest rate including the discount, issuance costs and interest rate agreement is 3.67%. Interest is payable semi-annually, in arrears on February 1 and August 1, and commenced on August 1, 2015.

During the first quarter of fiscal 2019, we reclassified the 2020 Notes as current debt in our Consolidated Balance Sheets. As of November 29, 2019, the carrying value of the 2020 Notes was \$899.6 million which includes the fair value of the interest rate swap and is net of debt issuance costs. We intend to refinance the 2020 Notes on or before the due date.

As of November 29, 2019, our outstanding notes payable consist of the 2020 Notes and 2025 Notes (the “Notes”) with a total carrying value of \$1.89 billion, which includes the fair value of the interest rate swaps and is net of debt issuance costs. Based on quoted prices in inactive markets, the fair value of the Notes was \$1.96 billion as of November 29, 2019.

The Notes rank equally with our other unsecured and unsubordinated indebtedness. We may redeem the Notes at any time, subject to a make-whole premium. In addition, upon the occurrence of certain change of control triggering events, we may be required to repurchase the Notes, at a price equal to 101% of their principal amount, plus accrued and unpaid interest to the date of repurchase. The Notes also include covenants that limit our ability to grant liens on assets and to enter into sale and leaseback transactions, subject to significant allowances. As of November 29, 2019, we were in compliance with all of the covenants.

During fiscal 2019, we made semi-annual interest payments on our 2020 and 2025 Notes totaling \$75.3 million.

In June 2019, in anticipation of refinancing our Term Loan and 2020 Notes, we entered into Treasury lock agreements with large financial institutions which fixed benchmark U.S. Treasury rates for an aggregate notional amount of \$1 billion of our future debt issuance. These derivative instruments hedge the impact of changes in the benchmark interest rate to future interest payments and will be terminated upon debt issuance. These derivative instruments were designated as cash flow hedges. *See Note 6 for further details regarding our Treasury lock agreements.*

Revolving Credit Agreement

In October 2018, we entered into a credit agreement (“Revolving Credit Agreement”), providing for a five-year \$1 billion senior unsecured revolving credit facility and incurred issuance costs of \$0.8 million which are amortized to interest expense over the term using the straight-line method. The Revolving Credit Agreement provides for loans to Adobe and certain of its subsidiaries that may be designated from time to time as additional borrowers. Pursuant to the terms of the Revolving Credit Agreement, we may, subject to the agreement of lenders to provide additional commitments, obtain up to an additional \$500 million in commitments, for a maximum aggregate commitment of \$1.5 billion. At our election, loans under the Revolving Credit Agreement will bear interest at either (i) LIBOR plus a margin, based on our debt ratings, ranging from 0.585% to 1.015% or (ii) a base rate, which is defined as the highest of (a) the agent’s prime rate, (b) the federal funds effective rate plus 0.500% or (c) LIBOR plus 1.00% plus a margin, based on our debt ratings, ranging from 0.000% to 0.015%. In addition, facility fees determined according to our debt ratings are payable on the aggregate commitments, regardless of usage, quarterly in an amount ranging from 0.040% to 0.110% per annum. We are permitted to permanently reduce the aggregate commitment under the Revolving Credit Agreement at any time. Subject to certain conditions stated in the Revolving Credit Agreement, Adobe and any of its subsidiaries designated as additional borrowers may borrow, prepay and re-borrow amounts at any time during the term of the Revolving Credit Agreement.

The Revolving Credit Agreement contains customary representations, warranties, affirmative and negative covenants, including a financial covenant, events of default and indemnification provisions in favor of the lenders. The negative covenants include restrictions regarding the incurrence of liens and indebtedness, certain merger and acquisition transactions, dispositions and other matters, all subject to certain exceptions. The financial covenant, based on a quarterly financial test, requires us not to exceed a maximum leverage ratio.

ADOBE INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The facility will terminate and all amounts owing thereunder will be due and payable on the maturity date unless (a) the commitments are terminated earlier upon the occurrence of certain events, including an event of default, or (b) the maturity date is further extended upon our request, subject to the agreement of the lenders.

As of November 29, 2019, there were no outstanding borrowings under this Credit Agreement and we were in compliance with all covenants.

NOTE 18. NON-OPERATING INCOME (EXPENSE)

Non-operating income (expense) for fiscal 2019, 2018 and 2017 included the following:

<i>(in thousands)</i>	2019	2018	2017
Interest and other income (expense), net:			
Interest income	\$ 68,321	\$ 92,540	\$ 66,069
Foreign exchange gains (losses)	(26,252)	(42,612)	(30,705)
Realized gains on fixed income investments	171	655	1,673
Realized losses on fixed income investments	(295)	(11,305)	(725)
Other	310	258	83
Interest and other income (expense), net	<u>\$ 42,255</u>	<u>\$ 39,536</u>	<u>\$ 36,395</u>
Interest expense	\$ (157,214)	\$ (89,242)	\$ (74,402)
Investment gains (losses), net:			
Realized investment gains	\$ 46,141	\$ 6,128	\$ 3,279
Unrealized investment gains	5,572	—	4,274
Realized investment losses	(134)	—	—
Unrealized investment losses	—	(2,915)	—
Investment gains (losses), net	<u>\$ 51,579</u>	<u>\$ 3,213</u>	<u>\$ 7,553</u>
Non-operating income (expense), net	<u><u>\$ (63,380)</u></u>	<u><u>\$ (46,493)</u></u>	<u><u>\$ (30,454)</u></u>

ADOBE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 19. SELECTED QUARTERLY FINANCIAL DATA (unaudited)

(in thousands, except per share data)	2019			
	Quarter Ended			
	March 1	May 31	August 30	November 29
Revenue	\$ 2,600,946	\$ 2,744,280	\$ 2,834,126	\$ 2,991,945
Gross profit	\$ 2,203,660	\$ 2,336,792	\$ 2,418,163	\$ 2,539,962
Income before income taxes	\$ 702,334	\$ 710,772	\$ 834,488	\$ 957,147
Net income	\$ 674,241	\$ 632,593	\$ 792,763	\$ 851,861
Basic net income per share	\$ 1.38	\$ 1.30	\$ 1.63	\$ 1.76
Diluted net income per share	\$ 1.36	\$ 1.29	\$ 1.61	\$ 1.74
2018				
(in thousands, except per share data)	Quarter Ended			
	March 2	June 1	August 31	November 30
	\$ 2,078,947	\$ 2,195,360	\$ 2,291,076	\$ 2,464,625
Revenue	\$ 1,820,045	\$ 1,914,016	\$ 1,995,584	\$ 2,105,364
Gross profit	\$ 702,502	\$ 690,799	\$ 701,358	\$ 699,217
Income before income taxes	\$ 583,076	\$ 663,167	\$ 666,291	\$ 678,240
Net income	\$ 1.18	\$ 1.35	\$ 1.36	\$ 1.39
Basic net income per share	\$ 1.17	\$ 1.33	\$ 1.34	\$ 1.37
Diluted net income per share				

Our fiscal year is a 52- or 53-week year that ends on the Friday closest to November 30. Each of the fiscal quarters presented were comprised of 13 weeks.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Adobe Inc.:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of Adobe Inc. and subsidiaries (the Company) as of November 29, 2019 and November 30, 2018, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended November 29, 2019, and the related notes (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of November 29, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of November 29, 2019 and November 30, 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended November 29, 2019, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of November 29, 2019 based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for revenue from contracts with customers and sales commissions as of December 1, 2018, due to the adoption of Financial Accounting Standards Board's Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*, and Subtopic 340-40, *Other Assets and Deferred Costs - Contracts with Customers*.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Controls over Financial Reporting under item 9A. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable

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assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgment. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Assessment of performance obligations in cloud-enabled software subscriptions

As discussed in Note 1 to the consolidated financial statements, cloud-enabled services are highly integrated and interrelated with on-premise or on-device software licenses in the Company's Creative Cloud and Document Cloud subscription offerings. Because of this, the cloud-based services and the on-premise/on-device software licenses are not considered distinct from each other and the applicable subscription is accounted for as a single performance obligation.

We identified the assessment of performance obligations in these cloud-enabled software subscription offerings as a critical audit matter. A high degree of subjective auditor judgment was required to assess the nature of the Company's Creative Cloud and Document Cloud offerings, their intended benefit to customers as an integrated offering, and the level of integration that exists between the cloud-enabled services and the on-premise/on-device licenses.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company's revenue recognition process, including controls related to the assessment of distinct performance obligations. We read the Creative Cloud and Document Cloud subscription offering agreements to understand the contractual terms and conditions. We participated in product demonstrations, examined marketing materials, and performed interviews with the Company's product and engineering department to both understand and observe specific functionalities of the integrated offering and evaluate the nature of the promise made to the Company's Creative Cloud and Document Cloud customers. We evaluated the features and functionalities of the Creative Cloud and Document Cloud subscription that can be accessed only when using the on-premise/on-device software while connected to the Adobe cloud to assess that customers receive the intended benefit from each solution only as an integrated offering.

(signed) KPMG LLP

We have served as the Company's auditor since 1983.

Santa Clara, California
January 21, 2020

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management has evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of November 29, 2019. Based on their evaluation as of November 29, 2019, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective at the reasonable assurance level to ensure that the information required to be disclosed by us in this Annual Report on Form 10-K was (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Adobe have been detected.

Management's Annual Report on Internal Controls over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal controls over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Our management assessed the effectiveness of our internal controls over financial reporting as of November 29, 2019. In making this assessment, our management used the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our management has concluded that, as of November 29, 2019, our internal controls over financial reporting is effective based on these criteria.

KPMG LLP, the independent registered public accounting firm that audited our financial statements included in this Annual Report on Form 10-K, has issued an attestation report on our internal controls over financial reporting, which is included herein.

Changes in Internal Controls over Financial Reporting

On December 1, 2018, we implemented new and modified existing internal controls based on the adoption of the new revenue standard. This resulted in changes to our processes related to revenue recognition and underlying control activities, including our information systems. There were no changes in our internal controls over financial reporting during the quarter ended November 29, 2019 that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10 of Form 10-K that is found in our 2020 Proxy Statement to be filed with the SEC in connection with the solicitation of proxies for the Company's 2020 Annual Meeting of Stockholders ("2020 Proxy Statement") is incorporated herein by reference to our 2020 Proxy Statement. The 2020 Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year to which this report relates. For information with respect to our executive officers, see "Executive Officers" at the end of Part I, Item 1 of this report.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 of Form 10-K is incorporated herein by reference to our 2020 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 of Form 10-K is incorporated herein by reference to our 2020 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item 13 of Form 10-K is incorporated herein by reference to our 2020 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item 14 of Form 10-K is incorporated herein by reference to our 2020 Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

1. Financial Statements. See Index to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K.

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	Filing Date	Exhibit Number	SEC File No.
2.1	Share Purchase Agreement by and among: Adobe, a Delaware corporation; Milestone Topco, Inc., a Delaware corporation; Vista Equity Partners Fund V, L.P., a Delaware limited partnership; Vista Equity Partners Fund V-A, L.P., a Cayman Island exempted limited partnership; Vista Equity Partners Fund V-B, L.P., a Cayman Island exempted limited partnership; VEPF V FAF, L.P., a Delaware limited partnership; Vista Equity Partners Fund V Executive, L.P., a Delaware limited partnership; Vista Equity Associates V, LLC, a Delaware limited liability company; Vista Equity Partners Fund VI, L.P., a Cayman Island exempted limited partnership; Vista Equity Partners Fund VI-A, L.P., a Cayman Island exempted limited partnership; VEPF VI FAF, L.P., a Cayman Island exempted limited partnership; and Vista Equity Partners Management, LLC, a Delaware limited liability company, as the Sellers' Representative	8-K	9/21/18	2.1	000-15175
3.1	Restated Certificate of Incorporation of Adobe	8-K	4/26/11	3.3	000-15175
3.2	Certificate of Amendment to Restated Certificate of Adobe	8-K	10/9/18	3.1	000-15175
3.3	Amended and Restated Bylaws	8-K	10/9/18	3.2	000-15175
4.1	Specimen Common Stock Certificate	10-K	1/25/19	4.1	000-15175
4.2	Form of Indenture dated as of January 25, 2010 by and between Adobe and Wells Fargo Bank, National Association, as trustee	S-3	2/26/16	4.1	333-209764
4.3	Form of Global Note for Adobe Systems Incorporated's 4.750% Notes due 2020, together with Form of Officer's Certificate setting forth the terms of the Note	8-K	1/26/10	4.1	000-15175

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Exhibit Number	Exhibit Description	Incorporated by Reference			SEC File No.	Filed Herewith
		Form	Filing Date	Exhibit Number		
4.4	Form of Global Note for Adobe's 3.250% Notes due 2025, together with Form of Officer's Certificate setting forth the terms of the Note	8-K	1/26/15	4.1	000-15175	
4.5	Description of Adobe's Common Stock					X
10.1	1997 Employee Stock Purchase Plan, as amended*	10-Q	6/29/16	10.3	000-15175	
10.2A	2003 Equity Incentive Plan, as amended*	8-K	4/13/18	10.2	000-15175	
10.2B	Form of Stock Option Agreement used in connection with the 2003 Equity Incentive Plan*	8-K	12/20/10	99.4	000-15175	
10.2C	Form of RSU Grant Notice and Award Agreement pursuant to 2003 Equity Incentive Plan*	8-K	1/26/18	10.6	000-15175	
10.2D	Form of Restricted Stock Unit Grant Notice and Award Agreement pursuant to 2003 Equity Incentive Plan*	8-K	1/28/19	10.5	000-15175	
10.2E	Form of Restricted Stock Agreement used in connection with the 2003 Equity Incentive Plan*	10-Q	10/7/04	10.11	000-15175	
10.2F	2017 Performance Share Program pursuant to the 2003 Equity Incentive Plan*	8-K	1/27/17	10.2	000-15175	
10.2G	Form of 2017 Performance Share Award Grant Notice and Award Agreement pursuant to 2017 Performance Share Program and 2003 Equity Incentive Plan*	8-K	1/27/17	10.3	000-15175	
10.2H	2018 Performance Share Program pursuant to the 2003 Equity Incentive Plan*	8-K	1/26/18	10.2	000-15175	
10.2I	Form of 2018 Performance Share Award Grant Notice and Award Agreement pursuant to 2018 Performance Share Program and 2003 Equity Incentive Plan*	8-K	1/26/18	10.3	000-15175	
10.2J	2019 Performance Share Program pursuant to the 2003 Equity Incentive Plan*	8-K	1/28/19	10.2	000-15175	
10.2K	Form of 2019 Performance Share Award Grant Notice and Award Agreement pursuant to 2019 Performance Share Program and 2003 Equity Incentive Plan*	8-K	1/28/19	10.3	000-15175	
10.3A	2019 Equity Incentive Plan*	8-K	4/12/19	10.1	000-15175	
10.3B	Form of Restricted Stock Unit Grant Notice and Award Agreement pursuant to 2019 Equity Incentive Plan*	10-Q	6/26/19	10.35B	000-15175	

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Exhibit Number	Exhibit Description	Incorporated by Reference			SEC File No.	Filed Herewith
		Form	Filing Date	Exhibit Number		
10.3C	Form of Director Grant Restricted Stock Unit Grant Notice and Award Agreement pursuant to 2019 Equity Incentive Plan*	10-Q	6/26/19	10.35C	000-15175	
10.3D	Anil Chakravarthy Restricted Stock Unit Grant Notice and Award Agreement pursuant to 2019 Equity Incentive Plan*					X
10.4	Retention Agreement between Adobe and Shantanu Narayen, effective December 5, 2014*	8-K	12/11/14	10.2	000-15175	
10.5	Form of Indemnity Agreement*	10-Q	6/26/09	10.12	000-15175	
10.6A	Adobe Deferred Compensation Plan, as Amended and Restated*	10-K	1/20/15	10.19	000-15175	
10.6B	Amendment No. One to Adobe Deferred Compensation Plan*					X
10.7	Credit Agreement, dated as of October 17, 2018, among Adobe Inc. and certain subsidiaries as Borrowers, JPMorgan Chase Bank, N.A., Wells Fargo Bank National Association, U.S Bank National Association, Societe Generale S.A. as Co-Syndication Agents, Bank of America, N.A. as Administrative Agent and Swing Line Lender, and the Other Lenders Party Thereto	8-K	10/19/18	10.1	000-15175	
10.8	Credit Agreement, dated as of October 17, 2018, among Adobe Inc. as Borrower, JPMorgan Chase Bank, N.A. as Syndication Agent, Wells Fargo Bank National Association as Documentation Agent, Bank of America, N.A. as Administrative Agent, and the Other Lenders Party Thereto	8-K	10/19/18	10.2	000-15175	
10.9	Adobe Systems Incorporated 2017 Executive Severance Plan in the Event of a Change of Control*	8-K	12/14/17	10.1	000-15175	
10.10	2019 Executive Annual Incentive Plan*	8-K	1/28/19	10.4	000-15175	
10.11	Description of 2019 and 2020 Director Compensation*	8-K	1/24/19	10.1	000-15175	
21	Subsidiaries of the Registrant					X
23.1	Consent of Independent Registered Public Accounting Firm, KPMG LLP					X
24.1	Power of Attorney (set forth on the signature page to this Annual Report on Form 10-K)					X
31.1	Certification of Chief Executive Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934					X

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Exhibit Number	Exhibit Description	Incorporated by Reference			SEC File No.	Filed Herewith
		Form	Filing Date	Exhibit Number		
31.2	Certification of Chief Financial Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934					X
32.1	Certification of Chief Executive Officer, as required by Rule 13a-14(b) of the Securities Exchange Act of 1934†					X
32.2	Certification of Chief Financial Officer, as required by Rule 13a-14(b) of the Securities Exchange Act of 1934†					X
101.INS	Inline XBRL Instance					X
101.SCH	Inline XBRL Taxonomy Extension Schema					X
101.CAL	Inline XBRL Taxonomy Extension Calculation					X
101.LAB	Inline XBRL Taxonomy Extension Labels					X
101.PRE	Inline XBRL Taxonomy Extension Presentation					X
101.DEF	Inline XBRL Taxonomy Extension Definition					X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					

* Compensatory plan or arrangement.

† The certifications attached as Exhibits 32.1 and 32.2 that accompany this Annual Report on Form 10-K, are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Adobe Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Form 10-K, irrespective of any general incorporation language contained in such filing.

ITEM 16. FORM 10-K SUMMARY

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ADOBE INC.

By: /s/ JOHN MURPHY

John Murphy
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: January 21, 2020

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Shantanu Narayen and John Murphy, and each or any one of them, his or her lawful attorneys-in-fact and agents, for such person in any and all capacities, to sign any and all amendments to this report and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that either of said attorneys-in-fact and agent, or substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ SHANTANU NARAYEN</u> Shantanu Narayen	Chairman of the Board of Directors, President and Chief Executive Officer (Principal Executive Officer)	January 21, 2020
<u>/s/ JOHN MURPHY</u> John Murphy	Executive Vice President, Chief Financial Officer (Principal Financial Officer)	January 21, 2020
<u>/s/ MARK GARFIELD</u> Mark Garfield	Vice President, Corporate Controller and Chief Accounting Officer (Principal Accounting Officer)	January 21, 2020
<u>/s/ JAMES DALEY</u> James Daley	Director	January 21, 2020
<u>/s/ AMY BANSE</u> Amy Banse	Director	January 21, 2020

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Signature	Title	Date
/s/ FRANK CALDERONI Frank Calderoni	Director	January 21, 2020
/s/ LAURA DESMOND Laura Desmond	Director	January 21, 2020
/s/ CHARLES GESCHKE Charles Geschke	Director	January 21, 2020
/s/ KATHLEEN OBERG Kathleen Oberg	Director	January 21, 2020
/s/ DHEERAJ PANDEY Dheeraj Pandey	Director	January 21, 2020
/s/ DAVID RICKS David Ricks	Director	January 21, 2020
/s/ DAN ROSENSWEIG Dan Rosensweig	Director	January 21, 2020
/s/ JOHN WARNOCK John Warnock	Director	January 21, 2020

SUMMARY OF TRADEMARKS

The following trademarks of Adobe Inc. or its subsidiaries, which may be registered in the United States and/or other countries, are referenced in this Form 10-K:

Acrobat
Acrobat Reader
Adobe
Adobe Aero
Adobe Audition
Adobe CreativeSync
Adobe Dimension
Adobe Experience Cloud
Adobe Fresco
Adobe Marketing Cloud
Adobe Premiere
Adobe Premiere Rush
Adobe Sensei
After Effects
Behance
Creative Cloud
Document Cloud
Illustrator
InCopy
InDesign
Lightroom
Magento
Marketo
Photoshop
PostScript
Premiere Rush
Reader
Sensei
TubeMogul

All other trademarks are the property of their respective owners.