

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 5, 2021
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 and zip code)

(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

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 filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐
(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of March 26, 2021, 478.0 million shares of the registrant's common stock, \$0.0001 par value per share, were issued and outstanding.

**ADOBE INC.
FORM 10-Q**

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PART I—FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	March 5, 2021 (Unaudited)	November 27, 2020 (*)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,452	\$ 4,478
Short-term investments	1,511	1,514
Trade receivables, net of allowances for doubtful accounts of \$21 for both periods	1,520	1,398
Prepaid expenses and other current assets	901	756
Total current assets	7,384	8,146
Property and equipment, net	1,530	1,517
Operating lease right-of-use assets, net	477	487
Goodwill	11,845	10,742
Other intangibles, net	1,729	1,359
Deferred income taxes	1,262	1,370
Other assets	758	663
Total assets	\$ 24,985	\$ 24,284
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables	\$ 254	\$ 306
Accrued expenses	1,243	1,422
Deferred revenue	4,134	3,629
Income taxes payable	81	63
Operating lease liabilities	94	92
Total current liabilities	5,806	5,512
Long-term liabilities:		
Debt	4,119	4,117
Deferred revenue	151	130
Income taxes payable	540	529
Deferred income taxes	81	10
Operating lease liabilities	494	499
Other liabilities	248	223
Total liabilities	11,439	11,020
Stockholders' equity:		
Preferred stock, \$0.0001 par value; 2 shares authorized; none issued	—	—
Common stock, \$0.0001 par value; 900 shares authorized; 601 shares issued; 479 shares outstanding for both periods	—	—
Additional paid-in-capital	7,617	7,357
Retained earnings	20,521	19,611
Accumulated other comprehensive income (loss)	(141)	(158)
Treasury stock, at cost (122 shares for both periods)	(14,451)	(13,546)
Total stockholders' equity	13,546	13,264
Total liabilities and stockholders' equity	\$ 24,985	\$ 24,284

(*) The condensed consolidated balance sheet as of November 27, 2020 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

See accompanying notes to condensed consolidated financial statements.

ADOBE INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share data)
(Unaudited)

	Three Months Ended	
	March 5, 2021	February 28, 2020
Revenue:		
Subscription	\$ 3,584	\$ 2,732
Product	155	143
Services and other	166	216
Total revenue	3,905	3,091
Cost of revenue:		
Subscription	324	274
Product	10	7
Services and other	113	171
Total cost of revenue	447	452
Gross profit	3,458	2,639
Operating expenses:		
Research and development	620	532
Sales and marketing	1,049	857
General and administrative	290	271
Amortization of intangibles	45	42
Total operating expenses	2,004	1,702
Operating income	1,454	937
Non-operating income (expense):		
Interest expense	(30)	(33)
Investment gains (losses), net	5	(3)
Other income (expense), net	4	18
Total non-operating income (expense), net	(21)	(18)
Income before income taxes	1,433	919
Provision for (benefit from) income taxes	172	(36)
Net income	\$ 1,261	\$ 955
Basic net income per share	\$ 2.63	\$ 1.98
Shares used to compute basic net income per share	479	482
Diluted net income per share	\$ 2.61	\$ 1.96
Shares used to compute diluted net income per share	483	488

See accompanying notes to condensed consolidated financial statements.

ADOBE INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Three Months Ended	
	March 5, 2021	February 28, 2020
	Increase/(Decrease)	
Net income	\$ 1,261	\$ 955
Other comprehensive income (loss), net of taxes:		
Available-for-sale securities:		
Unrealized gains / losses on available-for-sale securities	(3)	4
Derivatives designated as hedging instruments:		
Unrealized gains / losses on derivative instruments	5	1
Reclassification adjustment for realized gains / losses on derivative instruments	12	(2)
Net increase (decrease) from derivatives designated as hedging instruments	17	(1)
Foreign currency translation adjustments	3	(4)
Other comprehensive income (loss), net of taxes	17	(1)
Total comprehensive income, net of taxes	\$ 1,278	\$ 954

See accompanying notes to condensed consolidated financial statements.

ADOBE INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In millions)
(Unaudited)

Three Months Ended March 5, 2021								
	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balances at November 27, 2020	601	\$ —	\$ 7,357	\$ 19,611	\$ (158)	(122)	\$ (13,546)	\$ 13,264
Net income	—	—	—	1,261	—	—	—	1,261
Other comprehensive income (loss), net of taxes	—	—	—	—	17	—	—	17
Re-issuance of treasury stock under stock compensation plans	—	—	—	(351)	—	2	47	(304)
Repurchases of common stock	—	—	—	—	—	(2)	(950)	(950)
Stock-based compensation	—	—	260	—	—	—	—	260
Value of shares in deferred compensation plan	—	—	—	—	—	—	(2)	(2)
Balances at March 5, 2021	601	\$ —	\$ 7,617	\$ 20,521	\$ (141)	(122)	\$ (14,451)	\$ 13,546

Three Months Ended February 28, 2020								
	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balances at November 29, 2019	601	\$ —	\$ 6,504	\$ 14,829	\$ (188)	(118)	\$ (10,615)	\$ 10,530
Net income	—	—	—	955	—	—	—	955
Other comprehensive income (loss), net of taxes	—	—	—	—	(1)	—	—	(1)
Re-issuance of treasury stock under stock compensation plans	—	—	(56)	(394)	—	2	72	(378)
Repurchases of common stock	—	—	—	—	—	(2)	(850)	(850)
Stock-based compensation	—	—	217	—	—	—	—	217
Value of shares in deferred compensation plan	—	—	—	—	—	—	(8)	(8)
Balances at February 28, 2020	601	\$ —	\$ 6,665	\$ 15,390	\$ (189)	(118)	\$ (11,401)	\$ 10,465

See accompanying notes to condensed consolidated financial statements.

ADOBE INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Three Months Ended	
	March 5, 2021	February 28, 2020
Cash flows from operating activities:		
Net income	\$ 1,261	\$ 955
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	196	188
Stock-based compensation	260	217
Reduction of operating lease right-of-use assets	19	21
Deferred income taxes	117	(93)
Unrealized losses (gains) on investments, net	—	6
Other non-cash items	2	2
Changes in operating assets and liabilities, net of acquired assets and assumed liabilities:		
Trade receivables, net	(82)	145
Prepaid expenses and other assets	(242)	(197)
Trade payables	(59)	55
Accrued expenses and other liabilities	(200)	(98)
Income taxes payable	29	10
Deferred revenue	471	114
Net cash provided by operating activities	<u>1,772</u>	<u>1,325</u>
Cash flows from investing activities:		
Purchases of short-term investments	(289)	(213)
Maturities of short-term investments	246	235
Proceeds from sales of short-term investments	39	26
Acquisitions, net of cash acquired	(1,470)	—
Purchases of property and equipment	(59)	(94)
Purchases of long-term investments, intangibles and other assets	(25)	(2)
Net cash used for investing activities	<u>(1,558)</u>	<u>(48)</u>
Cash flows from financing activities:		
Repurchases of common stock	(950)	(850)
Proceeds from re-issuance of treasury stock	87	88
Taxes paid related to net share settlement of equity awards	(391)	(467)
Proceeds from issuance of debt	—	3,144
Repayment of debt	—	(3,150)
Other financing activities, net	10	2
Net cash used for financing activities	<u>(1,244)</u>	<u>(1,233)</u>
Effect of foreign currency exchange rates on cash and cash equivalents	4	(6)
Net increase (decrease) in cash and cash equivalents	(1,026)	38
Cash and cash equivalents at beginning of period	4,478	2,650
Cash and cash equivalents at end of period	<u>\$ 3,452</u>	<u>\$ 2,688</u>
Supplemental disclosures:		
Cash paid for income taxes, net of refunds	<u>\$ 91</u>	<u>\$ 45</u>
Cash paid for interest	<u>\$ 50</u>	<u>\$ 38</u>

See accompanying notes to condensed consolidated financial statements.

ADOBE INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

We have prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Pursuant to these rules and regulations, we have condensed or omitted certain information and footnote disclosures we normally include in our annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In management's opinion, we have made all adjustments (consisting only of normal, recurring adjustments, except as otherwise indicated) necessary to fairly present our financial position, results of operations and cash flows. Our interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year. These financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the fiscal year ended November 27, 2020 on file with the SEC (our "Annual Report").

Use of Estimates

In preparing the condensed 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 condensed consolidated financial statements and accompanying notes. 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. Our first quarter of fiscal 2021 financial results benefited from an extra week in the quarter due to our 52/53 week financial calendar whereby fiscal 2021 is a 53-week year compared with fiscal 2020 which was a 52-week year.

Reclassifications

In the fourth quarter of fiscal 2020, we moved our Advertising Cloud offerings from our Digital Experience segment into our new Publishing and Advertising segment, which combined our Advertising Cloud offerings with our previous Publishing segment. This realignment is consistent with how we manage our Digital Experience segment to better reflect the strategic shift related to Advertising Cloud and to align with our overall core value proposition of delivering on customer experience management. Further, we reclassified revenue and related cost of revenue of our Advertising Cloud offerings from subscription to services and other on our condensed consolidated statements of income. Financial information for all periods presented has been updated to reflect these reclassifications.

Significant Accounting Policies

There have been no material changes to our significant accounting policies as compared to the significant accounting policies described in our Annual Report.

Recently Adopted Accounting Guidance

On June 16, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments-Credit Losses (Topic 326). The FASB subsequently issued ASU No. 2019-04, Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments. These updates require the measurement and recognition of expected credit losses for financial assets held at amortized cost, which include our trade receivables and contract assets. The standard also requires that we recognize credit impairment losses related to our available-for-sale debt securities through an allowance for credit losses instead of a reduction in the cost basis. On November 28, 2020, the beginning of our fiscal year 2021, we adopted the accounting requirements of the updated standard utilizing the modified retrospective method of transition. The adoption of this standard did not have a material impact on our condensed consolidated financial statements and related disclosures.

ADOBE INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
Recent Accounting Pronouncements Not Yet Effective

There have been no other recent accounting pronouncements or changes in accounting pronouncements during the three months ended March 5, 2021, as compared to the recent accounting pronouncements described in our Annual Report, that are of significance or potential significance to us.

NOTE 2. REVENUE
Segment Information

Our segment results for the three months ended March 5, 2021 and February 28, 2020 were as follows:

<i>(dollars in millions)</i>	Digital Media	Digital Experience	Publishing and Advertising	Total
Three months ended March 5, 2021				
Revenue	\$ 2,859	\$ 934	\$ 112	\$ 3,905
Cost of revenue	98	319	30	447
Gross profit	<u>\$ 2,761</u>	<u>\$ 615</u>	<u>\$ 82</u>	<u>\$ 3,458</u>
Gross profit as a percentage of revenue	97 %	66 %	73 %	89 %
Three months ended February 28, 2020				
Revenue	\$ 2,169	\$ 753	\$ 169	\$ 3,091
Cost of revenue	87	277	88	452
Gross profit	<u>\$ 2,082</u>	<u>\$ 476</u>	<u>\$ 81</u>	<u>\$ 2,639</u>
Gross profit as a percentage of revenue	96 %	63 %	48 %	85 %

Revenue by geographic area for the three months ended March 5, 2021 and February 28, 2020 were as follows:

<i>(in millions)</i>	2021	2020
Americas	\$ 2,224	\$ 1,797
EMEA	1,052	817
APAC	629	477
Total	<u>\$ 3,905</u>	<u>\$ 3,091</u>

Revenue by major offerings in our Digital Media reportable segment for the three months ended March 5, 2021 and February 28, 2020 were as follows:

<i>(in millions)</i>	2021	2020
Creative Cloud	\$ 2,379	\$ 1,818
Document Cloud	480	351
Total	<u>\$ 2,859</u>	<u>\$ 2,169</u>

Subscription revenue by segment for the three months ended March 5, 2021 and February 28, 2020 were as follows:

<i>(in millions)</i>	2021	2020
Digital Media	\$ 2,731	\$ 2,058
Digital Experience	812	639
Publishing and Advertising	41	35
Total	<u>\$ 3,584</u>	<u>\$ 2,732</u>

ADOBE INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)***Contract Balances*

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. Included in trade receivables on the condensed 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. As of March 5, 2021, the balance of trade receivables, net of allowances for doubtful accounts, was \$1.52 billion, inclusive of unbilled receivables of \$58 million. As of November 27, 2020, the balance of trade receivables, net of allowances for doubtful accounts, was \$1.40 billion, inclusive of unbilled receivables of \$84 million.

We maintain an allowance for doubtful accounts which reflects our best estimate of potentially uncollectible trade receivables and is based on both specific and general reserves. We maintain general reserves on a collective basis by considering factors such as historical experience, credit-worthiness, the age of the trade receivable balances, current economic conditions and a reasonable and supportable forecast of future economic conditions. As of March 5, 2021 and November 27, 2020, our allowance for doubtful accounts was \$21 million for both periods.

A contract asset is recognized when a conditional right to consideration exists and transfer of control has occurred. 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 condensed consolidated balance sheets. We regularly review contract asset balances for impairment, considering factors such as historical experience, credit-worthiness, age of the balance, current economic conditions and a reasonable and supportable forecast of future economic conditions. Contract asset impairments were not material for the three months ended March 5, 2021. Contract assets were \$51 million and \$81 million as of March 5, 2021 and November 27, 2020, respectively.

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 refundable customer deposits. Deferred revenue is recognized as revenue when transfer of control to customers has occurred. As of March 5, 2021, the balance of deferred revenue was \$4.29 billion, which includes \$55 million of refundable customer deposits. Arrangements with some of our enterprise customers with non-cancellable and non-refundable committed funds provide options to either renew monthly on-premise term-based licenses or use some or all funds to purchase other Adobe products or services. Non-cancellable and non-refundable committed funds related to these agreements comprised approximately 6% of the total deferred revenue.

As of November 27, 2020, the balance of deferred revenue was \$3.76 billion. During the three months ended March 5, 2021, approximately \$1.71 billion of revenue was recognized that was included in the balance of deferred revenue as of November 27, 2020.

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. As of March 5, 2021, remaining performance obligations were approximately \$11.61 billion. Non-cancellable and non-refundable funds related to some of our enterprise customer agreements referred to in the paragraph above comprised approximately 5% of the total remaining performance obligations. 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.

Incremental costs of obtaining a contract with a customer are capitalized if we expect the benefit of those costs to be longer than one year and primarily relate to sales commissions paid to our sales force personnel. Capitalized contract acquisition costs are included in prepaid expenses and other current assets for the current portion and other assets for the long-term portion on the condensed consolidated balance sheets. Capitalized contract acquisition costs were \$568 million and \$530 million as of March 5, 2021 and November 27, 2020, respectively.

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 condensed consolidated balance sheets. Refund liabilities were \$128 million and \$127 million as of March 5, 2021 and November 27, 2020, respectively.

ADOBE INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****NOTE 3. ACQUISITIONS**

On December 7, 2020, we completed the acquisition of Workfront, a privately held company that provides a workflow platform, for approximately \$1.52 billion of cash consideration. During the first quarter of fiscal 2021, we began integrating Workfront into our Digital Experience reportable segment.

The table below represents the preliminary purchase price allocation to total identifiable intangible assets acquired and net liabilities assumed based on their respective estimated fair values as of December 7, 2020. The fair values assigned to assets acquired and liabilities assumed are based on management's best estimates and assumptions as of the reporting date. Fair values associated with the net tax liabilities assumed and their related impact to goodwill were pending finalization as of the reporting date.

<i>(in millions)</i>	Amount	Useful Life (years)
Customer contracts and relationships	\$ 290	10
Purchased technology	100	3
Backlog	40	2
Trademarks	30	5
Total identifiable intangible assets	460	
Net liabilities assumed	(41)	N/A
Goodwill ⁽¹⁾	1,105	N/A
Total purchase price	<u>\$ 1,524</u>	

⁽¹⁾ Non-deductible for tax-purposes.

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

Cash equivalents consist of highly liquid marketable debt securities 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 unrealized non-credit-related losses are included in accumulated other comprehensive income, net of taxes, in our condensed consolidated balance sheets. Unrealized credit-related losses are recorded to other income (expense), net in our condensed consolidated statements of income with a corresponding allowance for credit-related losses in our condensed consolidated balance sheets. Gains and losses are determined using the specific identification method and recognized when realized in our condensed consolidated statements of income.

ADOBE INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Cash, cash equivalents and short-term investments consisted of the following as of March 5, 2021:

<i>(in millions)</i>	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	\$ 702	\$ —	\$ —	\$ 702
Cash equivalents:				
Corporate debt securities	25	—	—	25
Money market mutual funds	2,629	—	—	2,629
Time deposits	96	—	—	96
Total cash equivalents	2,750	—	—	2,750
Total cash and cash equivalents	3,452	—	—	3,452
Short-term fixed income securities:				
Asset-backed securities	101	—	—	101
Corporate debt securities	1,378	6	(1)	1,383
Foreign government securities	3	—	—	3
Municipal securities	24	—	—	24
Total short-term investments	1,506	6	(1)	1,511
Total cash, cash equivalents and short-term investments	\$ 4,958	\$ 6	\$ (1)	\$ 4,963

Cash, cash equivalents and short-term investments consisted of the following as of November 27, 2020:

<i>(in millions)</i>	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	\$ 849	\$ —	\$ —	\$ 849
Cash equivalents:				
Corporate debt securities	28	—	—	28
Money market mutual funds	3,483	—	—	3,483
Time deposits	118	—	—	118
Total cash equivalents	3,629	—	—	3,629
Total cash and cash equivalents	4,478	—	—	4,478
Short-term fixed income securities:				
Asset-backed securities	105	1	—	106
Corporate debt securities	1,378	8	—	1,386
Foreign government securities	3	—	—	3
Municipal securities	19	—	—	19
Total short-term investments	1,505	9	—	1,514
Total cash, cash equivalents and short-term investments	\$ 5,983	\$ 9	\$ —	\$ 5,992

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

ADOBE INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

The following table summarizes the estimated fair value of short-term fixed income securities classified as short-term investments based on stated effective maturities as of March 5, 2021:

<i>(in millions)</i>	Estimated Fair Value
Due within one year	\$ 854
Due between one and two years	407
Due between two and three years	206
Due after three years	44
Total	\$ 1,511

We review our debt securities classified as short-term investments on a regular basis for impairment. For debt securities in unrealized loss positions, we determine whether any portion of the decline in fair value below the amortized cost basis is due to credit-related factors if we neither intend to sell nor anticipate that it is more likely than not that we will be required to sell prior to recovery of the amortized cost basis. We consider factors such as the extent to which the market value has been less than the cost, any noted failure of the issuer to make scheduled payments, changes to the rating of the security and other relevant credit-related factors in determining whether or not a credit loss exists. During the three months ended March 5, 2021, we did not recognize an allowance for credit-related losses on any of our investments.

NOTE 5. FAIR VALUE MEASUREMENTS
Assets and Liabilities Measured and Recorded at Fair Value on a Recurring Basis

The fair value of our financial assets and liabilities at March 5, 2021 was determined using the following inputs:

<i>(in millions)</i>	Fair Value Measurements at Reporting Date Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Total			
Assets:				
Cash equivalents:				
Corporate debt securities	\$ 25	\$ —	\$ 25	\$ —
Money market mutual funds	2,629	2,629	—	—
Time deposits	96	96	—	—
Short-term investments:				
Asset-backed securities	101	—	101	—
Corporate debt securities	1,383	—	1,383	—
Foreign government securities	3	—	3	—
Municipal securities	24	—	24	—
Prepaid expenses and other current assets:				
Foreign currency derivatives	36	—	36	—
Other assets:				
Deferred compensation plan assets	134	7	127	—
Total assets	\$ 4,431	\$ 2,732	\$ 1,699	\$ —
Liabilities:				
Accrued expenses:				
Foreign currency derivatives	\$ 4	\$ —	\$ 4	\$ —

ADOBE INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

The fair value of our financial assets and liabilities at November 27, 2020 was determined using the following inputs:

(in millions)

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents:				
Corporate debt securities	\$ 28	\$ —	\$ 28	\$ —
Money market mutual funds	3,483	3,483	—	—
Time deposits	118	118	—	—
Short-term investments:				
Asset-backed securities	106	—	106	—
Corporate debt securities	1,386	—	1,386	—
Foreign government securities	3	—	3	—
Municipal securities	19	—	19	—
Prepaid expenses and other current assets:				
Foreign currency derivatives	15	—	15	—
Other assets:				
Deferred compensation plan assets	116	7	109	—
Total assets	\$ 5,274	\$ 3,608	\$ 1,666	\$ —
Liabilities:				
Accrued expenses:				
Foreign currency derivatives	\$ 4	\$ —	\$ 4	\$ —

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

Our fixed income 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 debt 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 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 and other mutual funds.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The fair value of our debt was \$4.32 billion as of March 5, 2021, based on observable market prices in less active markets and categorized as Level 2. See Note 14 for further details regarding our debt.

ADOBE INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
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 condensed 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.

In June 2019, 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 hedged the impact of changes in the benchmark interest rate to future interest payments and were settled upon debt issuance in the first quarter of fiscal 2020. We incurred a loss related to the settlement of the instruments which is amortized to interest expense over the term of our debt due February 1, 2030. *See Note 14 for further details regarding our debt.*

As of March 5, 2021, we had net derivative losses on our foreign exchange option contracts expected to be recognized within the next 18 months, of which \$20 million of losses are expected to be recognized into revenue within the next 12 months. In addition, we had net derivative losses on our Treasury lock agreements, of which \$4 million is expected to be recognized into interest expense within the next 12 months.

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 fair value of derivative instruments on our condensed consolidated balance sheets as of March 5, 2021 and November 27, 2020 were as follows:

	2021		2020	
	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⁾	\$ 31	\$ —	\$ 12	\$ —
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts ⁽¹⁾	5	4	3	4
Total derivatives	\$ 36	\$ 4	\$ 15	\$ 4

⁽¹⁾ Fair value asset derivatives are included in prepaid expenses and other current assets and fair value liability derivatives are included in accrued expenses on our condensed consolidated balance sheets.

Gains and losses on derivative instruments, net of tax, recognized in our condensed consolidated statements of comprehensive income for the three months ended March 5, 2021 and February 28, 2020 were not material.

ADOBE INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

The effects of derivative instruments on our condensed consolidated statements of income for the three months ended March 5, 2021 and February 28, 2020 were primarily associated with foreign exchange option contracts. For the three months ended March 5, 2021 and February 28, 2020, we reclassified \$11 million of net loss and \$7 million of net gain, respectively, from accumulated other comprehensive income into revenue, net of tax, resulting from our foreign exchange option contracts.

NOTE 7. GOODWILL AND OTHER INTANGIBLES

Goodwill as of March 5, 2021 and November 27, 2020 was \$11.85 billion and \$10.74 billion, respectively. The increase was primarily due to our acquisition of Workfront in the first quarter of fiscal 2021. We continually monitor events and changes in circumstances that could indicate that the fair value of any one of our reporting units may more likely than not have fallen below its respective carrying amount. We have not identified any such events or changes in circumstances since the performance of our annual goodwill impairment test that would require us to perform another goodwill impairment test.

Other intangible assets subject to amortization as of March 5, 2021 and November 27, 2020 were as follows:

<i>(in millions)</i>	2021			2020		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Customer contracts and relationships	\$ 1,234	\$ (308)	\$ 926	\$ 958	\$ (289)	\$ 669
Purchased technology	770	(297)	473	756	(347)	409
Trademarks	393	(113)	280	384	(122)	262
Other	109	(59)	50	84	(65)	19
Other intangibles, net	<u>\$ 2,506</u>	<u>\$ (777)</u>	<u>\$ 1,729</u>	<u>\$ 2,182</u>	<u>\$ (823)</u>	<u>\$ 1,359</u>

During the three months ended March 5, 2021, other intangibles increased primarily due to identifiable intangible assets acquired through Workfront.

Amortization expense related to other intangibles was \$90 million and \$96 million for the three months ended March 5, 2021 and February 28, 2020, respectively. Of these amounts, \$45 million and \$54 million were included in cost of revenue for the three months ended March 5, 2021 and February 28, 2020, respectively.

As of March 5, 2021, we expect amortization expense in future periods to be as follows:

<i>(in millions)</i>	Other Intangibles
Remainder of 2021	\$ 254
2022	313
2023	282
2024	238
2025	216
Thereafter	426
Total expected amortization expense	<u>\$ 1,729</u>

ADOBE INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
NOTE 8. ACCRUED EXPENSES

Accrued expenses as of March 5, 2021 and November 27, 2020 consisted of the following:

<i>(in millions)</i>	2021	2020
Accrued compensation and benefits	\$ 441	\$ 375
Accrued bonuses	123	330
Refund liabilities	128	127
Accrued corporate marketing	119	134
Taxes payable	100	95
Accrued hosting fees	46	66
Royalties payable	32	34
Accrued interest expense	10	32
Other	244	229
Accrued expenses	<u>\$ 1,243</u>	<u>\$ 1,422</u>

Other includes accrued media costs and general corporate accruals for local and regional expenses, including accruals for fees associated with the cancellation of corporate events.

NOTE 9. STOCK-BASED COMPENSATION
Restricted Stock Units

Restricted stock unit activity for the three months ended March 5, 2021 was as follows:

	Number of Shares (in millions)	Weighted Average Grant Date Fair Value	Aggregate Fair Value⁽¹⁾ (in millions)
Beginning outstanding balance	7.0	\$ 285.69	
Awarded	2.0	\$ 474.45	
Released	(1.7)	\$ 258.95	
Forfeited	(0.2)	\$ 299.64	
Ending outstanding balance	<u>7.1</u>	<u>\$ 346.02</u>	<u>\$ 3,137</u>
Expected to vest	6.4	\$ 342.49	\$ 2,829

⁽¹⁾ The aggregate fair value is calculated using the closing stock price as of March 5, 2021 of \$440.83.

The total fair value of restricted stock units vested during the three months ended March 5, 2021 was \$824 million.

Performance Shares

In the first quarter of fiscal 2021, the Executive Compensation Committee of our Board of Directors approved the 2021 Performance Share Program, the terms of which are similar to prior year programs that are still outstanding. For information regarding our Performance Share Programs including the terms, see "Note 12. Stock-Based Compensation" of our Annual Report on Form 10-K for the fiscal year ended November 27, 2020.

As of March 5, 2021, the shares awarded under our 2021, 2020 and 2019 Performance Share Programs remain outstanding and are yet to be achieved.

ADOBE INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Performance share activity for the three months ended March 5, 2021 was as follows:

	Number of Shares (in millions)	Weighted Average Grant Date Fair Value	Aggregate Fair Value⁽¹⁾ (in millions)
Beginning outstanding balance	0.7	\$ 333.85	
Awarded	0.4	\$ 325.24	
Achieved	(0.4)	\$ 218.55	
Forfeited	(0.1)	\$ 369.73	
Ending outstanding balance	<u>0.6</u>	<u>\$ 408.45</u>	<u>\$ 277</u>
Expected to vest	0.6	\$ 403.91	\$ 243

⁽¹⁾ The aggregate fair value is calculated using the closing stock price as of March 5, 2021 of \$440.83.

Under our Performance Share Programs, participants generally have the ability to receive up to 200% of the target number of shares originally granted. Shares achieved during the three months ended March 5, 2021 resulted from 200% achievement of target for the 2018 Performance Share Program, as certified by the Executive Compensation Committee in the first quarter of fiscal 2021. Shares awarded during the three months ended March 5, 2021 include 0.2 million additional shares awarded for the final achievement of the 2018 Performance Share Program. The remaining awarded shares were for the 2021 Performance Share Program.

The total fair value of performance shares achieved during the three months ended March 5, 2021 was \$212 million.

Employee Stock Purchase Plan

Employees purchased 0.4 million shares at an average price of \$241.52 and 0.4 million shares at an average price of \$196.45 for the three months ended March 5, 2021 and February 28, 2020, respectively. The intrinsic value of shares purchased during the three months ended March 5, 2021 and February 28, 2020 was \$93 million and \$56 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.

Compensation Costs

As of March 5, 2021, there was \$2.28 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 2.44 years. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

Total stock-based compensation costs included in our condensed consolidated statements of income for the three months ended March 5, 2021 and February 28, 2020 were as follows:

<i>(in millions)</i>	2021	2020
Cost of revenue	\$ 17	\$ 15
Research and development	135	110
Sales and marketing	73	65
General and administrative	56	27
Total	<u>\$ 281</u>	<u>\$ 217</u>

ADOBE INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
NOTE 10. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

<i>(in millions)</i>	November 27, 2020	Increase / Decrease	Reclassification Adjustments	March 5, 2021
Net unrealized gains / losses on available-for-sale securities:				
Unrealized gains on available-for-sale securities	\$ 6	\$ (2)	\$ —	\$ 4
Unrealized losses on available-for-sale securities	—	(1)	—	(1)
Net unrealized gains / losses on available-for-sale securities	6	(3)	— ⁽¹⁾	3
Net unrealized gains / losses on derivative instruments designated as hedging instruments	(60)	5	12 ⁽²⁾	(43)
Cumulative foreign currency translation adjustments	(104)	3	—	(101)
Total accumulated other comprehensive income (loss), net of taxes	\$ (158)	\$ 5	\$ 12	\$ (141)

⁽¹⁾ Reclassification adjustments for gains / losses on available-for-sale securities are classified in 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.

Taxes related to each component of other comprehensive income (loss) for the three months ended March 5, 2021 and February 28, 2020 were not material.

NOTE 11. 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. In December 2020, our Board of Directors granted us additional authority to repurchase up to \$15 billion in common stock through the end of fiscal 2024.

During the three months ended March 5, 2021 and February 28, 2020, we entered into several structured stock repurchase agreements with large financial institutions, whereupon we provided them with prepayments totaling \$950 million and \$850 million, 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.

During the three months ended March 5, 2021, we repurchased approximately 1.9 million shares at an average price of \$478.14 through structured repurchase agreements entered into during fiscal 2020 and the three months ended March 5, 2021. During the three months ended February 28, 2020 we repurchased approximately 2.4 million shares at an average price of \$332.59 through structured repurchase agreements entered into during fiscal 2019 and the three months ended February 28, 2020.

For the three months ended March 5, 2021, the prepayments were classified as treasury stock on our condensed consolidated balance sheets at the payment date, though only shares physically delivered to us by March 5, 2021 were excluded

ADOBE INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

from the computation of net income per share. As of March 5, 2021, \$317 million of prepayment remained under our outstanding structured stock repurchase agreement.

Subsequent to March 5, 2021, as part of the May 2018 stock repurchase authority, we entered into a structured stock repurchase agreement with a large financial institution whereupon we provided them with a prepayment of \$1 billion. Upon completion of the \$1 billion stock repurchase agreement, \$100 million remains under our May 2018 authority. We have not drawn from our new \$15 billion authority as of the issuance of these financial statements.

NOTE 12. NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted net income per share for the three months ended March 5, 2021 and February 28, 2020:

(in millions, except per share data)

	2021	2020
Net income	\$ 1,261	\$ 955
Shares used to compute basic net income per share	478.8	482.4
Dilutive potential common shares from stock plans and programs	4.1	5.4
Shares used to compute diluted net income per share	482.9	487.8
Basic net income per share	\$ 2.63	\$ 1.98
Diluted net income per share	\$ 2.61	\$ 1.96
Anti-dilutive potential common shares	—	1.1

NOTE 13. COMMITMENTS AND CONTINGENCIES
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.

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-

ADOBE INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

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 or 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.

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.

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 14. DEBT

The carrying values of our borrowings as of March 5, 2021 and November 27, 2020 were as follows:

<i>(dollars in millions)</i>	Issuance Date	Due Date	Effective Interest Rate	2021	2020
1.70% 2023 Notes	February 2020	February 2023	1.92%	\$ 500	\$ 500
1.90% 2025 Notes	February 2020	February 2025	2.07%	500	500
3.25% 2025 Notes	January 2015	February 2025	3.67%	1,000	1,000
2.15% 2027 Notes	February 2020	February 2027	2.26%	850	850
2.30% 2030 Notes	February 2020	February 2030	2.69%	1,300	1,300
Total debt outstanding, at par				\$ 4,150	\$ 4,150
Unamortized discount and debt issuance costs				(31)	(33)
Carrying value of long-term debt				<u>\$ 4,119</u>	<u>\$ 4,117</u>

ADOBE INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)***Senior Notes*

In January 2015, we issued \$1 billion of senior notes due February 1, 2025. The related discount and issuance costs are amortized to interest expense over the term of the notes using the effective interest method. Interest is payable semi-annually, in arrears, on February 1 and August 1.

In February 2020, we issued \$500 million of senior notes due February 1, 2023, \$500 million of senior notes due February 1, 2025, \$850 million of senior notes due February 1, 2027 and \$1.30 billion of senior notes due February 1, 2030. Our total proceeds of approximately \$3.14 billion, net of issuance discount, were used for general corporate purposes including repayment of debt instruments due in fiscal 2020. The related discount and issuance costs are amortized to interest expense over the respective terms of the notes using the effective interest method. Interest is payable semi-annually, in arrears, on February 1 and August 1.

Based on quoted prices in inactive markets, the total fair value of our outstanding senior notes was \$4.32 billion as of March 5, 2021.

Our senior 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 do not contain financial covenants but include covenants that limit our ability to grant liens on assets and to enter into sale and leaseback transactions, subject to significant allowances.

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, which replaced our previous five-year \$1 billion senior unsecured revolving credit agreement dated as of March 2, 2012 (as amended, the "Prior Revolving Credit Agreement"). In addition, we incurred issuance costs of \$1 million which is 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 0.04% to 0.11% 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. As of March 5, 2021, we were in compliance with this covenant.

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 March 5, 2021, there were no outstanding borrowings under this Credit Agreement.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto.

In addition to historical information, this Quarterly Report on Form 10-Q 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, revenue growth and the anticipated impact on our business of the COVID-19 pandemic and related public health measures. 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 II, 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 Annual Report on Form 10-K for fiscal 2020. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. 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.

BUSINESS OVERVIEW

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 including photographers, video editors, designers and developers; communicators including content creators, students, marketers and knowledge workers; businesses of all sizes; 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 Quarterly Report on Form 10-Q.

OPERATIONS OVERVIEW

For our first quarter of fiscal 2021, we experienced strong demand across our Digital Media offerings consistent with the continued execution of our long-term plans with respect to this segment. In our Digital Experience segment, we continued to experience growth in software-based subscription revenue across our portfolio of offerings. Our first quarter of fiscal 2021 financial results benefited from an extra week in the quarter due to our 52/53 week financial calendar whereby fiscal 2021 is a 53-week year compared with fiscal 2020 which was a 52-week year.

During the second quarter of fiscal 2020, we began to discontinue our transaction-driven Advertising Cloud offerings, allowing us to focus our investment on strategic growth initiatives. In the fourth quarter of fiscal 2020, we moved our Advertising Cloud offerings from our Digital Experience segment into our new Publishing and Advertising segment, which combined Advertising Cloud with our previous Publishing segment. This realignment is consistent with how we manage our Digital Experience segment to better reflect the strategic shift related to Advertising Cloud and to align with our overall core value proposition of delivering on customer experience management.

Digital Media

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 Document Cloud offerings built around our Adobe Acrobat family of products, including Adobe Acrobat Reader DC, and a set of integrated mobile apps and cloud-based document services, including Adobe Scan and 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 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 obligations 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 the first quarter of fiscal 2021 was \$9.12 billion, up from \$8.78 billion at the end of fiscal 2020. Document Cloud ARR exiting the first quarter of fiscal 2021 was \$1.57 billion, up from \$1.47 billion at the end of fiscal 2020. Total Digital Media ARR grew to \$10.69 billion at the end of the first quarter of fiscal 2021, up from \$10.26 billion at the end of fiscal 2020.

Our success in driving growth in ARR has positively affected our revenue growth. Creative revenue in the first quarter of fiscal 2021 was \$2.38 billion, up from \$1.82 billion in the first quarter of fiscal 2020, representing 31% year-over-year growth. Document Cloud revenue in the first quarter of fiscal 2021 was \$480 million, up from \$351 million in the first quarter of fiscal

2020, representing 37% year-over-year growth and reflecting an increase in demand driven by the shift to remote work as well as our continued efforts to transition Document Cloud to a subscription-based model. Total Digital Media segment revenue grew to \$2.86 billion in the first quarter of fiscal 2021, up from \$2.17 billion in the first quarter of fiscal 2020, representing 32% year-over-year growth. These increases were driven by strong net new user growth, reflecting expanded digital engagement.

Digital Experience

We are a market leader in the fast-growing category addressed by our Digital Experience segment. 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.

In December 2020, we acquired Workfront, a privately held company that provides a workflow platform, and we began integrating Workfront into our Digital Experience segment in the first quarter of fiscal 2021.

Adobe Experience Cloud is focused on delivering solutions for our enterprise customers across the following strategic growth pillars:

- *Customer data and insights.* Our solutions deliver real-time customer profiles and intelligence across the customer journey. Our offerings include Adobe Experience Platform, Adobe Analytics, Adobe Audience Manager, Customer Journey Analytics, Real-time Customer Data Platform and Intelligent Services.
- *Content and commerce.* Our solutions help customers manage, deliver, test, target and optimize content delivery and enable shopping experiences that scale from mid-market to enterprise businesses. Our offerings include Adobe Experience Manager, Adobe Target and Adobe Commerce.
- *Customer journey management.* Our solutions help businesses manage, personalize and orchestrate campaigns and customer journeys across B2E use cases. Our offerings include Adobe Campaign, Marketo Engage and Journey Orchestration.
- *Work management.* Our work management solution is powered by Workfront, a leading workflow platform. Workfront helps customers orchestrate content creation and campaign workflows across marketing and creative teams.

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.

Digital Experience revenue for all fiscal years presented has been updated to reflect the Advertising Cloud segment move in the fourth quarter of fiscal 2020. Digital Experience revenue was \$934 million in the first quarter of fiscal 2021, up from \$753 million in the first quarter of fiscal 2020, representing 24% year-over-year growth. Driving this increase was the increase in subscription revenue, which grew to \$812 million in the first quarter of fiscal 2021 from \$639 million in the first quarter of fiscal 2020, representing 27% year-over-year growth. Also contributing to the increase in Digital Experience subscription revenue was revenue associated with Workfront's workflow platform offerings. We expect that the addition of Workfront, and continued demand across our portfolio of Digital Experience solutions, will drive revenue growth in future years.

COVID-19 UPDATE

In March 2020, the World Health Organization declared the outbreak of a disease caused by a novel strain of the coronavirus (COVID-19) to be a pandemic. This pandemic has had widespread, rapidly-evolving and unpredictable impacts on global societies, economies, financial markets and business practices. Federal and state governments have implemented measures in an effort to contain the virus, including physical distancing, travel restrictions, border closures, limitations on public gatherings, work from home, supply chain logistical changes and closure of non-essential businesses. Our focus remains

on promoting employee health and safety, serving our customers and ensuring business continuity. As a result, we have taken action to direct our teams to work from home, suspend travel and replace in-person events with digital events. As the administration of vaccine programs ramps up and cases decline, we continue to evaluate our plans to reopen our facilities and resume business travel for our employees.

During the pandemic, digital has become the primary way for people to connect, work, learn and be entertained, and for businesses to engage with customers. This macro trend towards all things digital has increased the importance and relevance of our solutions and accelerated the tailwinds that benefit our business, which contributed to our continued growth year over year. However, while our revenue and earnings are relatively predictable as a result of our subscription-based business model, the duration of the pandemic and the broader implications of the macro-economic recovery on our business remain uncertain. *See Risk Factors for further discussion of the possible impact of the pandemic on our business.*

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing our condensed 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 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. We evaluate our assumptions, judgments and estimates on a regular basis. 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 condensed 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.

There have been no significant changes in our critical accounting policies and estimates during the three months ended March 5, 2021, as compared to the critical accounting policies and estimates disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended November 27, 2020.

Recent Accounting Pronouncements

See Note 1 of our notes to condensed consolidated financial statements for information regarding recent accounting pronouncements that are of significance or potential significance to us.

RESULTS OF OPERATIONS

Our results of operations for the first quarter of fiscal 2021 were impacted by an extra week due to our first quarter of fiscal 2021 having 14 weeks as compared to 13 weeks in the year-ago period.

Financial Performance Summary

- Total Digital Media ARR of approximately \$10.69 billion as of March 5, 2021 increased by \$435 million, or 4%, from \$10.26 billion as of November 27, 2020. The change in our Digital Media ARR is primarily due to new user adoption of our Creative Cloud and Adobe Document Cloud offerings.
- Creative revenue during the three months ended March 5, 2021 of \$2.38 billion increased by \$561 million, or 31%, compared to the year-ago period. Document Cloud revenue during the three months ended March 5, 2021 of \$480 million increased by \$129 million, or 37%, compared to the year-ago period. The increases were primarily due to the increase in subscription revenue associated with our Creative Cloud and Document Cloud offerings.
- Digital Experience revenue of \$934 million during the three months ended March 5, 2021 increased by \$181 million, or 24%, compared to the year-ago period. The increase was primarily due to the increase in subscription revenue across our offerings, including from our Workfront acquisition.
- Remaining performance obligations of \$11.61 billion as of March 5, 2021 increased by \$272 million, or 2%, from \$11.34 billion as of November 27, 2020 primarily due to impacts from our acquisition of Workfront.

- Cost of revenue of \$447 million during the three months ended March 5, 2021 decreased slightly by \$5 million, or 1%, compared to the year-ago period primarily due to decreases in Advertising Cloud media costs, offset in large part by increases in hosting services and data center costs.
- Operating expenses of \$2.00 billion during the three months ended March 5, 2021 increased by \$302 million, or 18%, compared to the year-ago period primarily due to increases in base and incentive compensation and related benefits costs, as well as increased marketing spend.
- Net income of \$1.26 billion during the three months ended March 5, 2021 increased by \$306 million, or 32%, compared to the year-ago period primarily due to increases in revenue, offset in part by increases in operating expenses and the provision for income taxes.
- Cash flows from operations of \$1.77 billion during the three months ended March 5, 2021 increased by \$447 million, or 34%, compared to the year-ago period primarily due to higher net income adjusted for the net effect of non-cash items.

Presentation Changes

In the fourth quarter of fiscal 2020, we moved our Advertising Cloud offerings from our Digital Experience segment into our new Publishing and Advertising segment, which combined our Advertising Cloud offerings with our previous Publishing segment. This realignment is consistent with how we manage our Digital Experience segment to better reflect the strategic shift related to Advertising Cloud and to align with our overall core value proposition of delivering on customer experience management. Further, we reclassified revenue and related cost of revenue of our Advertising Cloud offerings from subscription to services and other on our condensed consolidated statements of income. Financial information for all periods presented has been updated to reflect these reclassifications.

Revenue for the Three Months Ended March 5, 2021 and February 28, 2020

(dollars in millions)

	Three Months		% Change
	2021	2020	
Subscription	\$ 3,584	\$ 2,732	31 %
Percentage of total revenue	92 %	88 %	
Product	155	143	8 %
Percentage of total revenue	4 %	5 %	
Services and other	166	216	(23)%
Percentage of total revenue	4 %	7 %	
Total revenue	\$ 3,905	\$ 3,091	26 %

Subscription

Our subscription revenue is comprised primarily of fees we charge for our subscription and hosted service offerings, and related support, including Creative Cloud and certain of our Adobe Experience Cloud and Document Cloud services. We primarily recognize subscription revenue ratably over the term of agreements with our customers, beginning with commencement of service. Subscription revenue related to certain offerings, where fees are based on a number of transactions and invoicing is aligned to the pattern of performance, customer benefit and consumption, are recognized on a usage basis.

We have the following reportable segments: Digital Media, Digital Experience, and Publishing and Advertising. Subscription revenue by reportable segment for the three months ended March 5, 2021 and February 28, 2020 is as follows:

(dollars in millions)

	Three Months		% Change
	2021	2020	
Digital Media	\$ 2,731	\$ 2,058	33 %
Digital Experience	812	639	27 %
Publishing and Advertising	41	35	17 %
Total subscription revenue	\$ 3,584	\$ 2,732	31 %

Product

Our product revenue is comprised primarily of fees related to licenses for on-premise software purchased on a perpetual basis, for a fixed period of time or based on usage for certain of our OEM and royalty agreements. We primarily recognize product revenue at the point in time the software is available to the customer, provided all other revenue recognition criteria are met.

Services and Other

Our services and other revenue is comprised primarily of fees related to consulting, training, maintenance and support and our advertising offerings. We typically sell our consulting contracts on a time-and-materials and fixed-fee basis. These revenues are recognized as the services are performed for time and materials contracts and on a relative performance basis for fixed-fee contracts. Training revenues are recognized as the services are performed. Our maintenance and support offerings, which entitle customers, partners and developers to receive desktop product upgrades and enhancements or technical support, depending on the offering, are generally recognized ratably over the term of the arrangement. Transaction-based advertising revenue is recognized on a usage basis as we satisfy the performance obligations to our customers.

Segment Information

(dollars in millions)

	Three Months		% Change
	2021	2020	
Digital Media	\$ 2,859	\$ 2,169	32 %
Percentage of total revenue	73 %	70 %	
Digital Experience	934	753	24 %
Percentage of total revenue	24 %	24 %	
Publishing and Advertising	112	169	(34) %
Percentage of total revenue	3 %	6 %	
Total revenue	\$ 3,905	\$ 3,091	26 %

Digital Media

Revenue from Digital Media increased \$690 million during the three months ended March 5, 2021 as compared to the three months ended February 28, 2020 driven by increases in revenue associated with our Creative and Document Cloud subscription offerings due to continued demand amid an increasingly digital environment.

Digital Experience

Revenue from Digital Experience increased \$181 million during the three months ended March 5, 2021 as compared to the three months ended February 28, 2020 primarily due to increases in subscription revenue across our offerings, including from our Workfront acquisition.

Geographical Information

(dollars in millions)

	Three Months		% Change
	2021	2020	
Americas	\$ 2,224	\$ 1,797	24 %
Percentage of total revenue	57 %	58 %	
EMEA	1,052	817	29 %
Percentage of total revenue	27 %	27 %	
APAC	629	477	32 %
Percentage of total revenue	16 %	15 %	
Total revenue	\$ 3,905	\$ 3,091	26 %

Overall revenue during the three months ended March 5, 2021 increased in all geographic regions as compared to the three months ended February 28, 2020 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 the three months ended March 5, 2021 as compared to the three months ended February 28, 2020 were impacts associated with foreign currency which were mitigated in part by our foreign currency hedging program. During the three months ended March 5, 2021, the U.S. Dollar primarily weakened against EMEA and APAC currencies as compared to the year-ago period, which increased revenue in U.S. Dollar equivalents by \$62 million. For the three months ended March 5, 2021, the foreign currency impact to revenue was offset in part by net hedging losses from our cash flow hedging program of \$11 million.

Cost of Revenue for the Three Months Ended March 5, 2021 and February 28, 2020

(dollars in millions)

	Three Months		% Change
	2021	2020	
Subscription	\$ 324	\$ 274	18 %
Percentage of total revenue	8 %	9 %	
Product	10	7	43 %
Percentage of total revenue	*	*	
Services and other	113	171	(34)%
Percentage of total revenue	3 %	6 %	
Total cost of revenue	\$ 447	\$ 452	(1)%

(*) Percentage is less than 1%.

Subscription

Cost of subscription revenue consists of third-party hosting services and data center costs, royalty fees and other expenses related to operating our network infrastructure, including depreciation expense and operating lease payments associated with computer equipment, salaries and related expenses of network operations, implementation, account management and technical support personnel, amortization of certain intangible assets and allocated overhead.

Cost of subscription revenue increased during the three months ended March 5, 2021 as compared to the three months ended February 28, 2020 due to the following:

	Components of % Change
Hosting services and data center costs	14 %
Base compensation and related benefits associated with headcount	8
Depreciation expense	(4)
Software licenses	2
Amortization of intangibles	(2)
Total change	18 %

Product

Cost of product revenue is primarily comprised of third-party royalties, amortization related to purchased intangibles and acquired rights to use technology, excess and obsolete inventory, localization costs and the costs associated with the manufacturing of our products.

Services and Other

Cost of services and other revenue is primarily comprised of employee-related and other associated costs incurred to provide consulting services, training and product support. Cost of services and other also includes media costs related to impressions purchased from third-party ad inventory sources for our transaction-based Adobe Advertising Cloud offerings, which we began to discontinue in the second quarter of fiscal 2020.

Cost of services and other revenue decreased during the three months ended March 5, 2021 as compared to the three months ended February 28, 2020 primarily due to decreases in media costs associated with the discontinuation of our transaction-based Advertising Cloud offerings.

Operating Expenses for the Three Months Ended March 5, 2021 and February 28, 2020

(dollars in millions)

	Three Months		% Change
	2021	2020	
Research and development	\$ 620	\$ 532	17 %
Percentage of total revenue	16 %	17 %	
Sales and marketing	1,049	857	22 %
Percentage of total revenue	27 %	28 %	
General and administrative	290	271	7 %
Percentage of total revenue	7 %	9 %	
Amortization of intangibles	45	42	7 %
Percentage of total revenue	1 %	1 %	
Total operating expenses	\$ 2,004	\$ 1,702	18 %

Research and Development

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

Research and development expenses increased during the three months ended March 5, 2021 as compared to the three months ended February 28, 2020 primarily due to the following:

	Components of % Change
Incentive compensation, cash and stock-based	14 %
Base compensation and related benefits associated with headcount	3
Total change	17 %

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 acquisition 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 and events, public relations and other market development programs.

Sales and marketing expenses increased during the three months ended March 5, 2021 as compared to the three months ended February 28, 2020 primarily due to the following:

	Components of % Change
Marketing spend related to campaigns, events and overall marketing efforts	13 %
Incentive compensation, cash and stock-based	7
Base compensation and related benefits associated with headcount	3
Travel	(3)
Transaction fees	2
Total change	22 %

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 during the three months ended March 5, 2021 as compared to the three months ended February 28, 2020 primarily due to the following:

	Components of % Change
Incentive compensation, cash and stock-based	16 %
Base compensation and related benefits associated with headcount	3
Charges related to cancellation of corporate events, net of recoveries	(12)
Professional and consulting fees	(5)
Charitable contributions	4
Facilities	2
Various individually insignificant items	(1)
Total change	7 %

We recorded higher net charges related to the cancellation of our corporate events during the three months ended February 28, 2020 as compared to the current period due to the onset of the COVID-19 pandemic in the first quarter of fiscal 2020. Professional and consulting fees decreased during the three months ended March 5, 2021 as compared to the year-ago period primarily due to lower legal fees.

Amortization of Intangibles

Amortization expenses increased during the three months ended March 5, 2021 as compared to the three months ended February 28, 2020, primarily due to amortization expense associated with intangible assets purchased through our acquisition of Workfront. The increase in amortization expense is offset in part by certain intangible assets from previous acquisitions, including Marketo and Omniture, becoming fully amortized in fiscal 2020.

Non-Operating Income (Expense), Net for the Three Months Ended March 5, 2021 and February 28, 2020

(dollars in millions)

	Three Months		
	2021	2020	% Change
Interest expense	\$ (30)	\$ (33)	(9)%
Percentage of total revenue	(1)%	(1)%	
Investment gains (losses), net	5	(3)	**
Percentage of total revenue	*	*	
Other income (expense), net	4	18	**
Percentage of total revenue	*	1 %	
Total non-operating income (expense), net	\$ (21)	\$ (18)	**

(*) Percentage is less than 1%.

(**) Percentage is not meaningful.

Interest Expense

Interest expense represents interest associated with our debt instruments. Interest on our senior notes is payable semi-annually, in arrears, on February 1 and August 1.

Interest expense decreased during the three months ended March 5, 2021 as compared to the three months ended February 28, 2020 primarily due to lower average interest rates on our debt instruments that were refinanced in the first quarter of fiscal 2020. See Note 14 of our notes to condensed consolidated financial statements for further details regarding our debt instruments.

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.

Other Income (Expense), Net

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

Other income (expense), net decreased during the three months ended March 5, 2021 as compared to the three months ended February 28, 2020, primarily due to decreases in interest income driven by lower average interest rates.

Provision for (Benefit from) Income Taxes for the Three Months Ended March 5, 2021 and February 28, 2020

(dollars in millions)

	Three Months		% Change
	2021	2020	
Provision for (benefit from) income taxes	\$ 172	\$ (36)	**
Percentage of total revenue	4 %	(1)%	
Effective tax rate	12 %	(4)%	

(**) Percentage is not meaningful.

Our effective tax rate increased by approximately 16 percentage points for the three months ended March 5, 2021, as compared to the three months ended February 28, 2020, primarily due to lower tax benefits related to stock-based compensation and a change in geographic mix of international income as a result of the change in our corporate tax trading structure completed during fiscal 2020.

Our effective tax rate for the three months ended March 5, 2021 was lower than the U.S. federal statutory tax rate of 21% primarily due to tax benefits related to stock-based compensation.

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 to reduce our deferred tax assets to the amount realizable. The total valuation allowance was \$288 million as of March 5, 2021 and is primarily attributable to certain state credits and foreign intangible assets.

We are a United States-based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. The current U.S. tax law provides an exemption from federal income taxes for distributions from foreign subsidiaries, 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.

In the current global tax policy environment, the U.S. Treasury and other domestic and foreign governing bodies continue to consider, and in some cases introduce, changes in regulations applicable to corporate multinationals such as Adobe. As regulations are issued, we account for finalized regulations in the period of enactment.

Accounting for Uncertainty in Income Taxes

The gross liabilities for unrecognized tax benefits excluding interest and penalties were \$244 million and \$163 million as of March 5, 2021 and February 28, 2020, respectively. If the total unrecognized tax benefits at March 5, 2021 and February 28, 2020 were recognized, \$179 million and \$107 million would decrease the respective effective tax rates.

As of March 5, 2021 and February 28, 2020, the combined amounts of accrued interest and penalties related to tax positions taken on our tax returns were approximately \$23 million for both periods. 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 \$15 million over the next 12 months.

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 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, cause us to respond by making changes to our business structure, 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, application of tax rules and 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 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.

LIQUIDITY AND CAPITAL RESOURCES

This data should be read in conjunction with our condensed consolidated statements of cash flows.

<i>(in millions)</i>	As of	
	March 5, 2021	November 27, 2020
Cash and cash equivalents	\$ 3,452	\$ 4,478
Short-term investments	\$ 1,511	\$ 1,514
Working capital	\$ 1,578	\$ 2,634
Stockholders' equity	\$ 13,546	\$ 13,264

A summary of our cash flows is as follows:

<i>(in millions)</i>	Three Months Ended	
	March 5, 2021	February 28, 2020
Net cash provided by operating activities	\$ 1,772	\$ 1,325
Net cash used for investing activities	(1,558)	(48)
Net cash used for financing activities	(1,244)	(1,233)
Effect of foreign currency exchange rates on cash and cash equivalents	4	(6)
Net increase (decrease) in cash and cash equivalents	\$ (1,026)	\$ 38

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

Net cash provided by operating activities of \$1.77 billion for the three months ended March 5, 2021 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 together with increases in deferred revenue driven by Digital Experience offerings. The primary working capital uses of cash were due to increases in prepaid expenses and other assets together with decreases in accrued expenses and other liabilities. The increases in prepaid expenses and other assets were driven by sales commissions paid and capitalized and increases in prepaid payroll related to employee benefits. The decreases in accrued expenses and other liabilities were largely driven by a decrease in accrued bonuses.

Cash Flows from Investing Activities

Net cash used for investing activities of \$1.56 billion for the three months ended March 5, 2021 was primarily due to our acquisition of Workfront and ongoing capital expenditures. *See Note 3 of our notes to condensed consolidated financial statements for further details regarding our acquisition of Workfront.*

Cash Flows from Financing Activities

Net cash used for financing activities of \$1.24 billion for the three months ended March 5, 2021 was primarily due to payments for our common stock repurchases and taxes paid related to the net share settlement of equity awards, which were offset in part by proceeds from re-issuance of treasury stock for our employee stock purchase plan. *See the section titled "Stock Repurchase Program" below.*

Other Liquidity and Capital Resources Considerations

Our existing cash, cash equivalents and investment balances may fluctuate during fiscal 2021 due to changes in our planned cash outlay.

Cash from operations could also be affected by various risks and uncertainties, including, but not limited to, the effects of the pandemic and other risks detailed in Part II, Item 1A titled "Risk Factors." 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.

Our cash equivalent and short-term investment portfolio as of March 5, 2021 consisted of asset backed securities, corporate debt securities, money market mutual funds, municipal securities, foreign government securities and time deposits. We use professional investment management firms to manage a large portion of our invested cash.

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 March 5, 2021, there were no outstanding borrowings under this Credit Agreement and the entire \$1 billion credit line remains available for borrowing.

As of March 5, 2021, we have \$4.15 billion senior notes outstanding. The senior notes rank equally with our other unsecured and unsubordinated indebtedness. *See Note 14 of our notes to condensed consolidated financial statements for further details regarding our debt.*

We expect to continue our investing activities, including short-term and long-term investments, purchases of computer systems for research and development, sales and marketing, product support and administrative staff, and facilities expansion. 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.

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. In December 2020, our Board of Directors granted us additional authority to repurchase up to \$15 billion in common stock through the end of fiscal 2024.

During the three months ended March 5, 2021 and February 28, 2020, we entered into several structured stock repurchase agreements with large financial institutions, whereupon we provided them with prepayments totaling \$950 million and \$850 million, respectively.

During the three months ended March 5, 2021, we repurchased approximately 1.9 million shares at an average price of \$478.14 through structured repurchase agreements entered into during fiscal 2020 and the three months ended March 5, 2021. During the three months ended February 28, 2020, we repurchased approximately 2.4 million shares at an average price of \$332.59 through structured repurchase agreements entered into during fiscal 2019 and the three months ended February 28, 2020.

As of March 5, 2021, \$317 million of prepayment remained under our outstanding structured stock repurchase agreement.

Subsequent to March 5, 2021, as part of the May 2018 stock repurchase authority, we entered into a structured stock repurchase agreement with a large financial institution whereupon we provided them with a prepayment of \$1 billion. Upon completion of the \$1 billion stock repurchase agreement, \$100 million remains under our May 2018 authority. We have not drawn from our new \$15 billion authority as of the issuance of these financial statements.

See Note 11 of our notes to condensed consolidated financial statements for further details regarding our stock repurchase program.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Our principal commitments as of March 5, 2021 consist of our senior notes and obligations under operating leases, royalty agreements and various service agreements. There have been no material changes in those obligations during the three months ended March 5, 2021. *See Notes 13 and 14 of our notes to condensed consolidated financial statements for more detailed information regarding our contractual commitments.*

Senior Notes

As of March 5, 2021, the carrying value of our senior notes was \$4.12 billion. Interest is payable semi-annually, in arrears, on February 1 and August 1. At March 5, 2021, our maximum commitment for interest payments was \$564 million for the remaining duration of our outstanding senior notes.

Covenants

As of March 5, 2021, we were in compliance with all covenants. Our Revolving Credit Agreement contains a financial covenant requiring us not to exceed a maximum leverage ratio. 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.

Under the terms of our 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

Our transition tax liability which was accrued as a result of the U.S. Tax Act was approximately \$390 million as of March 5, 2021 and is payable in installments through fiscal 2026. The U.S. Tax Act provides an exemption from federal income taxes for distributions from foreign subsidiaries, 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 (Benefit from) Income Taxes above 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 material 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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risk exposures for the three months ended March 5, 2021, as compared to those discussed in our Annual Report on Form 10-K for the fiscal year ended November 27, 2020.

ITEM 4. CONTROLS AND PROCEDURES

Based on their evaluation as of March 5, 2021, 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 Quarterly Report on Form 10-Q 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.

There were no changes in our internal control over financial reporting during the quarter ended March 5, 2021 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

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 error 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.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 13 of our notes to condensed consolidated financial statements for information regarding our legal proceedings.

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.

Risks Related to Our Ability to Grow Our Business

The effects of the COVID-19 pandemic have materially affected how we and our customers are operating our businesses, and the duration and extent to which this will impact our future results of operations and overall financial performance remains uncertain.

The COVID-19 pandemic and related public health measures have materially affected how we and our customers are operating our businesses, and have materially affected our operating results. Due to our subscription-based business model, the effect of the pandemic may not be fully reflected in our results of operations until future periods. If the pandemic has a substantial impact on our employees', partners' or customers' businesses and productivity, our results of operations and overall financial performance may be harmed. The global macroeconomic effects of the pandemic may persist for an indefinite period, even after the pandemic has subsided.

As a result of the pandemic, we have temporarily closed certain Adobe offices and have implemented certain travel restrictions. This global work-from-home operating environment has caused strain for, and may adversely impact the productivity of, certain employees, and these conditions may persist and harm our business, including our future operating results. Additionally, our efforts to re-open our offices safely may not be successful, could expose our employees, customers, and partners to health risks, and us to associated liability, and will involve additional financial burdens. The pandemic may have long-term effects on the nature of the office environment and remote working, and this may present operational challenges that may adversely affect our business.

We have shifted our in-person customer events to virtual-only experiences and we may deem it advisable to similarly alter, postpone or cancel entirely additional customer, employee or industry events in the future. Our virtual customer, employee and industry events may not be as successful as in-person events. Moreover, the conditions caused by the pandemic have affected the rate of IT spending and may continue to adversely affect our customers' ability or willingness to purchase our offerings. We have seen and may continue to see these conditions delay prospective customers' purchasing decisions, adversely impact our ability to provide on-site consulting services to our customers, result in extended payment terms, reduce the value or duration of their subscription contracts, or affect attrition rates, all of which could adversely affect our future sales, operating results and overall financial performance. The global macroeconomic effects of the COVID-19 pandemic and related impacts on our customers' business operations and their demand for our products and services may persist for an indefinite period, even after the COVID-19 pandemic has subsided.

Our operations have also been negatively affected by a range of external factors related to the pandemic that are not within our control. Authorities throughout the world have implemented measures to contain or mitigate the spread of the virus, including physical distancing, travel bans and restrictions, closure of non-essential businesses, quarantines, work-from-home directives and shelter-in-place orders. These measures have caused, and are continuing to cause, business slowdowns or shutdowns in affected areas, both regionally and worldwide, which have impacted our business and results of operations, and may also delay the provisioning of our offerings.

The extent of the impact from the pandemic depends on future developments that cannot be accurately predicted at this time, such as the duration and spread of the pandemic, future spikes of COVID-19 infections resulting in additional preventive measures to contain or mitigate the spread of the virus, the extent and effectiveness of containment actions, the administration and efficacy of vaccination programs and the impact of these and other factors on our employees, customers, partners and vendors. If we are not able to respond to and manage the impact of such events effectively, our business will be harmed.

Finally, to the extent that the pandemic harms our business and results of operations, many of the other risks described in this "Risk Factors" section may be heightened.

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, global market conditions 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 our Annual 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, or limitations on, certain technologies may reduce the effectiveness of our products. For example, some of our products rely on third-party cookies or other identifiers where the permissions are managed through web browsers or mobile operating systems. These technologies are used in our products to help our customers more effectively advertise, gauge the performance of their advertisements and detect and prevent fraudulent activity. Consumers can control the use of these technologies through their browsers, device settings or "ad-blocking" software or applications. Increased use of such methods, software or applications that block cookies or other identifiers could harm our business.

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.

Our ability to acquire other businesses or technologies, make strategic investments or integrate acquired businesses effectively may also be impaired by the effects of the COVID-19 pandemic, government actions in light of the pandemic, trade tensions and increased global scrutiny of foreign investments. For example, a number of countries, including the U.S. and countries in Europe and the Asia-Pacific region, are considering or have adopted restrictions on foreign investments. Governments may continue to adopt or tighten restrictions of this nature, and such restrictions could negatively impact our business and financial results.

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.

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.

Social and ethical issues relating to the use of AI in our offerings may result in reputational harm and liability.

Social and ethical issues relating to the use of new and evolving technologies such as artificial intelligence (AI) in our offerings, may result in reputational harm and liability, and may cause us to incur additional research and development costs to resolve such issues. We are increasingly building AI into many of our offerings. As with many innovations, AI presents risks and challenges that could affect its adoption, and therefore our business. AI presents emerging ethical issues and if we enable or offer solutions that draw controversy due to their perceived or actual impact on society, we may experience brand or reputational harm, competitive harm or legal liability. Potential government regulation in the space of AI ethics may also increase the burden and cost of research and development in this area, subjecting us to brand or reputational harm, competitive harm or legal liability. Failure to address AI ethics issues by us or others in our industry could undermine public confidence in AI and slow adoption of AI in our products and services.

Risks Related to the Operation of 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. In addition, the COVID-19 pandemic could potentially disrupt the supply chain of hardware needed to maintain these third-party systems and services or to run our 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.

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. This existing risk is compounded given the COVID-19 pandemic and the resulting shift to work-from-home arrangements for a large population of employees and contractors. 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.

These issues 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 or 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, regularly 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 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. Further, restrictions in place for the COVID-19 pandemic have resulted and could continue to result in our inability to negotiate in person. 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, including as a result of the COVID-19 pandemic. 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 43% 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, including uncertainty caused by the United Kingdom's exit from the European Union (Brexit) on January 31, 2020, including the effects of the Trade and Cooperation Agreement between the European Union, the European Atomic Energy Community and the United Kingdom signed on December 30, 2020, as well as uncertainty caused by the evolving relations between the United States and China;
- 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, including fluctuations in the severity and duration of the COVID-19 pandemic and resulting restrictions on business activity which may vary significantly by region.

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, including during the COVID-19 pandemic, 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 increasingly utilize the distribution platforms of third parties like Apple's App Store and Google's Play Store for the distribution of certain of our product offerings. Although we benefit from the strong brand recognition and large user base of these distribution platforms to attract new customers, the platform owners have wide discretion to change the pricing structure, terms of service and other policies with respect to us and other developers, and may offer or promote products that compete with our product offerings. Adverse changes by these third parties could adversely affect our financial results.

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.

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 (including during the COVID-19 pandemic), 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, partner 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 partner and distribution channels are 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 partners and our continuing relationships with them are important to our success. Some of these distributors and partners may be unable to withstand adverse changes in economic conditions, which could result in insolvency, the inability of such distributors and partners to obtain credit to finance access to or 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.

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 (including the COVID-19 pandemic), 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, and the adverse effects of any such catastrophic event would be exacerbated if experienced at the same time as another unexpected and adverse event, such as the COVID-19 pandemic. For example, wildfires have resulted in power shut-offs in California and are likely to occur in the future, and this could adversely affect the work-from-home operations of our employees on the west coast.

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 or to work from home and stay connected effectively due to COVID-19 in 2020. 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.

Risks Related to Laws and Regulations

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 response to the COVID-19 pandemic, federal, state, local and foreign governmental authorities have imposed, and may continue to impose, protocols and restrictions intended to contain the spread of the virus, including limitations on the size of gatherings, closures of work facilities, schools, public buildings and businesses, quarantines, lockdowns and travel restrictions. Such restrictions have disrupted and may continue to disrupt our business operations and limit our ability to perform critical functions.

In addition, approximately 47% 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.

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 protection, 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, laws, such as the General Data Protection Regulation ("GDPR") and the Network and Information Systems Directive ("NISD") in Europe, and new and emerging state laws in the U.S. on privacy, data and related technologies, such as the California Consumer Privacy Act (and the recently passed California Privacy Rights Act) and the Virginia Consumer Data Protection 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, the dynamic nature of these 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 laws, regulations and codes 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 or data protection 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 complex and subject to legal and regulatory requirements as well as active litigation and enforcement in a number of jurisdictions around the world, each of which could have an adverse impact to our ability to process and transfer personal data as part of our business operations. For example, European data transfers outside the European Economic Area are highly regulated and litigated. The mechanisms that we and many other companies rely upon for European data transfers (e.g., Privacy Shield and Model Clauses) are the subject of recent judicial decisions by the Court of Justice of the European Union resulting in the invalidation of Privacy Shield. We are closely monitoring the impact of the Privacy Shield invalidation and other developments related to the remaining valid transfer mechanisms available for transferring personal data outside the European Union and other countries that have similar trans-border data flow requirements and adjusting our practices accordingly. The invalidation of Privacy Shield and the open questions related to the validity of Model Clauses have resulted in some changes in the obligations required to provide our services in the European Union and could expose us to potential sanctions and fines for non-compliance. Several other countries, including Australia, New Zealand, Brazil, 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 other countries implement more restrictive regulations for cross-border data transfers (or do not permit data to leave the country of origin), such developments could impact our business, financial condition and results of operations, in those jurisdictions.

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.

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 I, Item 1, 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. The U.S. Tax Cuts and Jobs Act ("U.S. Tax Act"), enacted into law in December 2017, changed existing U.S. tax law and introduced certain international provisions applicable to us. Among other considerations, the applicability and impact of these new tax provisions, and of other international tax law changes, could adversely affect our effective income tax rate and cash flows in future years.

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, net tax benefits from trading structure changes, tax benefits from stock-based compensation and settlements of tax examinations, and to net 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, the geographic mix of earnings, our repatriation policy or the valuation of our deferred tax assets and liabilities, by changes in or our interpretation of tax rules and regulations in the jurisdictions in which we do business, or by unexpected negative changes in business and market conditions that could reduce certain tax benefits.

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 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, cause us to respond by making changes to our business structure, 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, application of tax rules and 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 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.

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.

Risks Related to Financial Performance or General Economic Conditions***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 caused by the United Kingdom's exit from the European Union (Brexit), and other events beyond our control, such as the COVID-19 pandemic. Additionally, the business downturn caused by the pandemic may adversely impact the businesses and financial health of many of our customers and hurt their creditworthiness (e.g., international travel bans impacting customers in the travel and hospitality industries). As a result, current or potential customers may be unable to fund software purchases, which could cause them to delay, decrease or cancel purchases of our products and services. 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, and we have already experienced and may continue to experience the impact of a global decline in advertising spend as the pandemic continues to unfold. 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.

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, and the impact of the COVID-19 pandemic may introduce further volatility. 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.

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;
- macroeconomic conditions and the economic impact of the COVID-19 pandemic; 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.

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 \$4.15 billion of notes in debt offerings and may incur other debt in the future, which may adversely affect our financial condition and future financial results.

We have \$4.15 billion in senior unsecured notes and 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 flows from operations to service our debt, thereby reducing the amount of expected cash flows 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 agreement 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 debt 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 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.

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

Our cash equivalent and short-term investment portfolio as of March 5, 2021 consisted of asset backed securities, corporate debt securities, money market mutual funds, municipal securities, foreign government securities and time deposits. 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, including from impacts of the COVID-19 pandemic, 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 March 5, 2021, 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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Below is a summary of stock repurchases for the three months ended March 5, 2021. See Note 11 of our notes to condensed consolidated financial statements for information regarding our stock repurchase program.

Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Approximate Dollar Value that May Yet be Purchased Under the Plans
(in millions, except average price per share)				
Beginning repurchase authority ⁽¹⁾				\$ 2,305
Additional repurchase authority granted ⁽²⁾				\$ 15,000
November 28, 2020—January 1, 2021				
Shares repurchased	0.5	\$ 471.71	0.5	\$ (255)
January 2, 2021—January 29, 2021				
Shares repurchased	0.7	\$ 483.09	0.7	\$ (317) ⁽³⁾
January 30, 2021—March 5, 2021				
Shares repurchased	0.7	\$ 478.48	0.7	\$ (317) ⁽³⁾
Total	1.9		1.9	\$ 16,416

⁽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 December 2020, the Board of Directors granted us additional authority to repurchase up to \$15 billion in common stock through the end of fiscal 2024.

⁽³⁾ In December 2020, we entered into a structured stock repurchase agreement with a large financial institution whereupon we provided them with a prepayment of \$950 million. As of March 5, 2021, approximately \$317 million of the prepayment remained under this agreement.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference			SEC File No.	Filed Herewith
		Form	Filing Date	Exhibit Number		
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	
10.1	2021 Performance Share Program pursuant to the 2019 Equity Incentive Plan*	8-K	1/27/21	10.2	000-15175	

Exhibit Number	Exhibit Description	Incorporated by Reference			SEC File No.	Filed Herewith
		Form	Filing Date	Exhibit Number		
10.2	Form of 2021 Performance Share Award Grant Notice and Award Agreement pursuant to 2021 Performance Share Program and 2019 Equity Incentive Plan*	8-K	1/27/21	10.3	000-15175	
10.3	2021 Executive Annual Incentive Plan, as amended and restated*	8-K	1/27/21	10.4	000-15175	
31.1	Certification of Chief Executive Officer, as required by Rule 13a-14(a) of the Securities Exchange Act of 1934					X
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 - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					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 Quarterly Report on Form 10-Q, 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-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURE

Pursuant to the requirements 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: March 31, 2021

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-Q:

Acrobat
Adobe
Adobe Experience Cloud
Allegorithmic
Behance
Creative Cloud
Document Cloud
Marketo
Reader
Workfront

All other trademarks are the property of their respective owners.