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 August 28, 2020

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	**77-0019522**
(State or other jurisdiction of incorporation or organization)	(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 (Do not check if a smaller reporting company) ☐	Smaller reporting company ☐	Emerging growth 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 ☒

The number of shares outstanding of the registrant's common stock as of September 18, 2020 was 479,718,983.

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)

	August 28, 2020 (Unaudited)	November 29, 2019 (*)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,767	$ 2,650
Short-term investments	1,497	1,527
Trade receivables, net of allowances for doubtful accounts of $34 and $10, respectively	1,318	1,535
Prepaid expenses and other current assets	805	783
Total current assets	7,387	6,495
Property and equipment, net	1,467	1,293
Operating lease right-of-use assets, net	507	—
Goodwill	10,739	10,691
Other intangibles, net	1,445	1,721
Deferred income taxes	219	—
Other assets	650	562
Total assets	$ 22,414	$ 20,762
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables	$ 229	$ 209
Accrued expenses	1,317	1,399
Debt	—	3,149
Deferred revenue	3,317	3,378
Income taxes payable	177	56
Operating lease liabilities	90	—
Total current liabilities	5,130	8,191
Long-term liabilities:		
Debt	4,116	989
Deferred revenue	131	123
Income taxes payable	507	616
Deferred income taxes	76	140
Operating lease liabilities	520	—
Other liabilities	221	173
Total liabilities	10,701	10,232
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; 480 and 483 shares outstanding, respectively	—	—
Additional paid-in-capital	7,195	6,504
Retained earnings	17,383	14,829
Accumulated other comprehensive income (loss)	(153)	(188)
Treasury stock, at cost (121 and 118 shares, respectively)	(12,712)	(10,615)
Total stockholders' equity	11,713	10,530
Total liabilities and stockholders' equity	$ 22,414	$ 20,762

(*) The condensed consolidated balance sheet as of November 29, 2019 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		Nine Months Ended	
	August 28, 2020	**August 30, 2019**	**August 28, 2020**	**August 30, 2019**
Revenue:				
Subscription	$ 3,000	$ 2,547	$ 8,699	$ 7,308
Product	109	157	380	480
Services and support	116	130	365	391
Total revenue	3,225	2,834	9,444	8,179
Cost of revenue:				
Subscription	328	304	1,000	888
Product	10	9	26	31
Services and support	89	103	268	302
Total cost of revenue	427	416	1,294	1,221
Gross profit	2,798	2,418	8,150	6,958
Operating expenses:				
Research and development	566	490	1,630	1,430
Sales and marketing	892	812	2,650	2,443
General and administrative	230	219	725	654
Amortization of intangibles	41	43	123	133
Total operating expenses	1,729	1,564	5,128	4,660
Operating income	1,069	854	3,022	2,298
Non-operating income (expense):				
Interest expense	(28)	(40)	(89)	(121)
Investment gains (losses), net	10	4	7	47
Other income (expense), net	9	17	39	24
Total non-operating income (expense), net	(9)	(19)	(43)	(50)
Income before income taxes	1,060	835	2,979	2,248
Provision for (benefit from) income taxes	105	42	(31)	148
Net income	$ 955	$ 793	$ 3,010	$ 2,100
Basic net income per share	$ 1.99	$ 1.63	$ 6.25	$ 4.31
Shares used to compute basic net income per share	480	486	481	487
Diluted net income per share	$ 1.97	$ 1.61	$ 6.20	$ 4.26
Shares used to compute diluted net income per share	485	491	486	492

See accompanying notes to condensed consolidated financial statements.

ADOBE INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	August 28, 2020	August 30, 2019	August 28, 2020	August 30, 2019
	Increase/(Decrease)		Increase/(Decrease)	
Net income	$ 955	$ 793	$ 3,010	$ 2,100
Other comprehensive income (loss), net of taxes:				
Available-for-sale securities:				
Unrealized gains / losses on available-for-sale securities	1	7	8	29
Reclassification adjustment for recognized gains / losses on available-for-sale securities	—	—	(1)	—
Net increase (decrease) from available-for-sale securities	1	7	7	29
Derivatives designated as hedging instruments:				
Unrealized gains / losses on derivative instruments	(33)	(27)	(31)	(8)
Reclassification adjustment for realized gains / losses on derivative instruments	2	(11)	(3)	(38)
Net increase (decrease) from derivatives designated as hedging instruments	(31)	(38)	(34)	(46)
Foreign currency translation adjustments	72	(19)	62	(29)
Other comprehensive income (loss), net of taxes	42	(50)	35	(46)
Total comprehensive income, net of taxes	$ 997	$ 743	$ 3,045	$ 2,054

See accompanying notes to condensed consolidated financial statements.

ADOBE INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In millions)

(Unaudited)

	Three Months Ended August 28, 2020							
	Common Stock					Treasury Stock		
	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Shares	Amount	Total
Balances at May 29, 2020	601	$ —	$ 6,892	$ 16,428	$ (195)	(121)	$ (12,244)	$ 10,881
Net income	—	—	—	955	—	—	—	955
Other comprehensive income (loss), net of taxes	—	—	—	—	42	—	—	42
Re-issuance of treasury stock under stock compensation plans	—	—	71	—	—	1	32	103
Purchase of treasury stock	—	—	—	—	—	(1)	(500)	(500)
Stock-based compensation	—	—	232	—	—	—	—	232
Balances at August 28, 2020	601	$ —	$ 7,195	$ 17,383	$ (153)	(121)	$ (12,712)	$ 11,713

	Three Months Ended August 30, 2019							
	Common Stock					Treasury Stock		
	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Shares	Amount	Total
Balances at May 31, 2019	601	$ —	$ 6,051	$ 13,184	$ (144)	(115)	$ (9,159)	$ 9,932
Net income	—	—	—	793	—	—	—	793
Other comprehensive income (loss), net of taxes	—	—	—	—	(50)	—	—	(50)
Re-issuance of treasury stock under stock compensation plans	—	—	90	—	—	1	33	123
Purchase of treasury stock	—	—	—	—	—	(2)	(750)	(750)
Stock-based compensation	—	—	194	—	—	—	—	194
Value of shares in deferred compensation plan	—	—	—	—	—	—	1	1
Balances at August 30, 2019	601	$ —	$ 6,335	$ 13,977	$ (194)	(116)	$ (9,875)	$ 10,243

ADOBE INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Continued)

(In millions)

(Unaudited)

	Nine Months Ended August 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	—	—	—	3,010	—	—	—	3,010
Other comprehensive income (loss), net of taxes	—	—	—	—	35	—	—	35
Re-issuance of treasury stock under stock compensation plans	—	—	15	(456)	—	4	113	(328)
Purchase of treasury stock	—	—	—	—	—	(7)	(2,200)	(2,200)
Stock-based compensation	—	—	676	—	—	—	—	676
Value of shares in deferred compensation plan	—	—	—	—	—	—	(10)	(10)
Balances at August 28, 2020	601	$ —	$ 7,195	$ 17,383	$ (153)	(121)	$ (12,712)	$ 11,713

	Nine Months Ended August 30, 2019							
	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balances at November 30, 2018	601	$ —	$ 5,685	$ 11,816	$ (148)	(113)	$ (7,991)	$ 9,362
Impacts of adoption of the new revenue standard	—	—	—	442	—	—	—	442
Net income	—	—	—	2,100	—	—	—	2,100
Other comprehensive income (loss), net of taxes	—	—	—	—	(46)	—	—	(46)
Re-issuance of treasury stock under stock compensation plans	—	—	82	(381)	—	4	119	(180)
Purchase of treasury stock	—	—	—	—	—	(7)	(2,000)	(2,000)
Stock-based compensation	—	—	568	—	—	—	—	568
Value of shares in deferred compensation plan	—	—	—	—	—	—	(3)	(3)
Balances at August 30, 2019	601	$ —	$ 6,335	$ 13,977	$ (194)	(116)	$ (9,875)	$ 10,243

See accompanying notes to condensed consolidated financial statements.

ADOBE INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Nine Months Ended	
	August 28, 2020	**August 30, 2019**
Cash flows from operating activities:		
Net income	$ 3,010	$ 2,100
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	567	566
Stock-based compensation	676	585
Reduction of operating lease right-of-use assets	65	—
Deferred income taxes	(284)	(2)
Unrealized losses (gains) on investments, net	(4)	(43)
Other non-cash items	37	3
Changes in operating assets and liabilities, net of acquired assets and assumed liabilities:		
Trade receivables, net	187	(14)
Prepaid expenses and other assets	(281)	(417)
Trade payables	19	1
Accrued expenses and other liabilities	(15)	53
Income taxes payable	20	(39)
Deferred revenue	(52)	252
Net cash provided by operating activities	3,945	3,045
Cash flows from investing activities:		
Purchases of short-term investments	(764)	(373)
Maturities of short-term investments	674	478
Proceeds from sales of short-term investments	123	66
Acquisitions, net of cash acquired	—	(100)
Purchases of property and equipment	(316)	(300)
Purchases of long-term investments, intangibles and other assets	(8)	(60)
Proceeds from sale of long-term investments and other assets	8	2
Net cash used for investing activities	(283)	(287)
Cash flows from financing activities:		
Purchases of treasury stock	(2,200)	(2,000)
Proceeds from re-issuance of treasury stock	270	232
Taxes paid related to net share settlement of equity awards	(599)	(412)
Proceeds from issuance of debt	3,144	—
Repayment of debt	(3,150)	—
Other financing activities, net	(13)	—
Net cash used for financing activities	(2,548)	(2,180)
Effect of foreign currency exchange rates on cash and cash equivalents	3	(12)
Net increase in cash and cash equivalents	1,117	566
Cash and cash equivalents at beginning of period	2,650	1,643
Cash and cash equivalents at end of period	$ 3,767	$ 2,209
Supplemental disclosures:		
Cash paid for income taxes, net of refunds	$ 200	$ 232
Cash paid for interest	$ 88	$ 125

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 29, 2019 on file with the SEC (our "Annual Report").

Reclassification

Certain immaterial prior year amounts have been reclassified to conform to current year presentation in the condensed consolidated statements of cash flows and notes to condensed consolidated financial statements.

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. Estimates are used for, but not limited to, sales allowances and programs, bad debts, stock-based compensation, determining the fair value of acquired assets and assumed liabilities, impairment of goodwill and intangible assets, litigation and income taxes. Actual results may differ materially from these estimates.

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 created and may continue to create significant uncertainty in the macroeconomic environment which, in addition to other unforeseen effects of this pandemic, may adversely impact our results of operations. As a result, most of our estimates and assumptions may require increased judgment and carry a higher degree of variability and volatility. As events continue to evolve and additional information becomes available, our estimates may change materially in future periods.

Recently Adopted Accounting Guidance

On February 24, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842), ("ASC 842"), a new standard related to leases to increase transparency and comparability among organizations by requiring the recognition of right-of-use ("ROU") assets and lease liabilities on the balance sheet for all leases with terms greater than twelve months, including for those leases classified as operating leases under the legacy standard ("ASC 840"). Under ASC 842, added disclosures are required as compared to ASC 840 to meet the objective of enabling users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.

On November 30, 2019, the beginning of our fiscal year 2020, we adopted ASC 842 using the alternative modified retrospective transition method provided in ASU 2018-11, Leases (Topic 842): Targeted Improvements. Under this method, we recorded ROU assets and lease liabilities of approximately $519 million and $618 million, respectively, at the adoption date and did not include any retrospective adjustments to comparative periods to reflect the adoption of ASC 842. The lease liabilities reflect the remaining minimum rental payments for our existing leases as of the adoption date, discounted using our incremental borrowing rate for each lease. The standard had no impact on our consolidated net income or cash flows. We elected the package of practical expedients permitted under the transition guidance, which allowed us to carry forward our assessments on whether a contract was or contains a lease, our historical lease classification and our initial direct costs for any leases that existed prior to adoption date. We also elected the practical expedient that allowed us to carry forward our accounting treatment for existing land easements. We did not elect the hindsight practical expedient to determine the lease term for existing leases.

On August 28, 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging, requiring expanded hedge accounting for both non-financial and financial risk components and refining the measurement of hedge results to better reflect an entity's hedging strategies. The updated standard also amends the presentation and disclosure requirements and changes how entities assess hedge effectiveness. On November 30, 2019, the beginning of our fiscal year 2020, 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.

Significant Accounting Policies

Leases

We determine if an arrangement is or contains a lease at contract inception. In certain of our lease arrangements, primarily those related to our data center arrangements, judgment is required in determining if a contract contains a lease. For these arrangements, there is judgment in evaluating if the arrangement involves an identified asset that is physically distinct or whether we have the right to substantially all of the capacity of an identified asset that is not physically distinct. In arrangements that involve an identified asset, there is also judgment in evaluating if we have the right to direct the use of that asset.

We do not have any finance leases. Operating leases are recorded in our condensed consolidated balance sheets. ROU assets and lease liabilities are measured at the lease commencement date based on the present value of the remaining lease payments over the lease term, determined using the discount rate for the lease at the commencement date. Because the rate implicit in our leases is not readily determinable, we use our incremental borrowing rate as the discount rate, which approximates the interest rate at which we could borrow on a collateralized basis with similar terms and payments and in similar economic environments. Our leases have remaining lease terms of up to 12 years, some of which include options to extend the lease for up to 14 years and options to terminate the lease within 1 year. Optional periods to extend the lease, including by not exercising a termination option, are included in the lease term when it is reasonably certain that the option will be exercised. We also have one land lease that expires in 2091. Operating lease expense is recognized on a straight-line basis over the lease term. We account for lease and non-lease components, principally common area maintenance for our facilities leases, as a single lease component for our facilities and data center leases.

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

Recent Accounting Pronouncements Not Yet Effective

On June 16, 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses, requiring the measurement and recognition of expected credit losses for financial assets held at amortized cost, which include our accounts receivable 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. The effective date of the new standard for public companies is for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition with a cumulative effect adjustment recorded to opening retained earnings as of the initial adoption date. The updated standard is effective for us beginning in the first quarter of fiscal 2021 and we do not plan to early adopt. While we are continuing to assess the potential impacts of the standard, we currently do not expect it to have a material impact on our condensed consolidated financial statements and related disclosures.

With the exception of the new standard discussed above, there have been no other recent accounting pronouncements or changes in accounting pronouncements during the nine months ended August 28, 2020, as compared to the recent accounting pronouncements described in our Annual Report, that are of significance or potential significance to us.

ADOBE INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 2. REVENUE

Segment Information

Our segment results for the three months ended August 28, 2020 and August 30, 2019 were as follows:

(dollars in millions)	Digital Media	Digital Experience	Publishing	Total
Three months ended August 28, 2020				
Revenue	$ 2,337	$ 838	$ 50	$ 3,225
Cost of revenue	87	334	6	427
Gross profit	$ 2,250	$ 504	$ 44	$ 2,798
Gross profit as a percentage of revenue	96 %	60 %	88 %	87 %
Three months ended August 30, 2019				
Revenue	$ 1,962	$ 821	$ 51	$ 2,834
Cost of revenue	74	337	5	416
Gross profit	$ 1,888	$ 484	$ 46	$ 2,418
Gross profit as a percentage of revenue	96 %	59 %	90 %	85 %

Our segment results for the nine months ended August 28, 2020 and August 30, 2019 were as follows:

(dollars in millions)	Digital Media	Digital Experience	Publishing	Total
Nine months ended August 28, 2020				
Revenue	$ 6,738	$ 2,522	$ 184	$ 9,444
Cost of revenue	258	1,021	15	1,294
Gross profit	$ 6,480	$ 1,501	$ 169	$ 8,150
Gross profit as a percentage of revenue	96 %	60 %	92 %	86 %
Nine months ended August 30, 2019				
Revenue	$ 5,629	$ 2,348	$ 202	$ 8,179
Cost of revenue	213	993	15	1,221
Gross profit	$ 5,416	$ 1,355	$ 187	$ 6,958
Gross profit as a percentage of revenue	96 %	58 %	92 %	85 %

Revenue by geographic area for the three and nine months ended August 28, 2020 and August 30, 2019 were as follows:

	Three Months		Nine Months	
(in millions)	2020	2019	2020	2019
Americas	$ 1,873	$ 1,639	$ 5,481	$ 4,748
EMEA	851	755	2,493	2,187
APAC	501	440	1,470	1,244
Total	$ 3,225	$ 2,834	$ 9,444	$ 8,179

Revenue by major offerings in our Digital Media reportable segment for the three and nine months ended August 28, 2020 and August 30, 2019 were as follows:

	Three Months		Nine Months	
(in millions)	2020	2019	2020	2019
Creative Cloud	$ 1,962	$ 1,655	$ 5,652	$ 4,744
Document Cloud	375	307	1,086	885
Total	$ 2,337	$ 1,962	$ 6,738	$ 5,629

Subscription revenue by segment for the three and nine months ended August 28, 2020 and August 30, 2019 were as follows:

	Three Months		Nine Months	
(in millions)	2020	2019	2020	2019
Digital Media	$ 2,240	$ 1,841	$ 6,433	$ 5,278
Digital Experience	729	679	2,175	1,945
Publishing	31	27	91	85
Total	$ 3,000	$ 2,547	$ 8,699	$ 7,308

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 August 28, 2020, the balance of trade receivables, net of allowances for doubtful accounts, was $1.32 billion, inclusive of unbilled receivables of $91 million. As of November 29, 2019, the balance of trade receivables, net of allowances for doubtful accounts, was $1.53 billion, inclusive of unbilled receivables of $149 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. The allowance for doubtful accounts was $34 million and $10 million as of August 28, 2020 and November 29, 2019, respectively.

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 and other economic or business factors. Contract asset impairments were not material for the nine months ended August 28, 2020. Contract assets were $77 million and $64 million as of August 28, 2020 and November 29, 2019, 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 August 28, 2020, the balance of deferred revenue was $3.45 billion, which includes $31 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 29, 2019, the balance of deferred revenue was $3.50 billion. During the three and nine months ended August 28, 2020, approximately $585 million and $3.00 billion of revenue, respectively, was recognized that was included in the balance of deferred revenue as of November 29, 2019.

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 August 28, 2020, remaining performance obligations were approximately $10.34 billion. Non-cancellable and non-refundable funds related to some of our enterprise customer agreements referred to in the paragraph above comprised approximately 6% 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 $538 million and $474 million as of August 28, 2020 and November 29, 2019, 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 $115 million and $126 million as of August 28, 2020 and November 29, 2019, respectively.

NOTE 3. ACQUISITIONS

On January 23, 2019, we completed the acquisition of Allegorithmic, a privately-held 3D editing and authoring software company for gaming and entertainment, and integrated it into our Digital Media reportable segment. Prior to the acquisition, we held an equity interest in Allegorithmic that was accounted for as an equity-method investment. We acquired the remaining equity interest for approximately $106 million in cash consideration. The total purchase price, inclusive of the acquisition-date fair-value of our pre-existing equity interest, was approximately $161 million.

In conjunction with the acquisition, we separately recognized an investment gain of approximately $42 million, which represents the difference between the $55 million acquisition-date fair value of our pre-existing equity interest and our previous carrying amount.

Under the acquisition method of accounting, the total final purchase price was allocated to Allegorithmic's net tangible and intangible assets based upon their estimated fair values as of the acquisition date. The excess purchase price over the value of the net tangible and identifiable intangible assets was recorded as goodwill. Of the total purchase price, $126 million was allocated to goodwill that was non-deductible for tax purposes, $45 million to identifiable intangible assets and the remainder to net liabilities assumed.

Pro forma financial information has not been presented as the impact to our condensed consolidated financial statements was not material.

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 losses, net of taxes, are included in accumulated other comprehensive income, which is reflected as a separate component of stockholders' equity 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. When we have determined that an other-than-temporary decline in fair value has occurred, the amount of the decline that is related to a credit loss is recognized in income.

ADOBE INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Cash, cash equivalents and short-term investments consisted of the following as of August 28, 2020:

(in millions)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	$ 740	$ —	$ —	$ 740
Cash equivalents:				
Corporate debt securities	5	—	—	5
Money market mutual funds	2,937	—	—	2,937
Time deposits	85	—	—	85
Total cash equivalents	3,027	—	—	3,027
Total cash and cash equivalents	3,767	—	—	3,767
Short-term fixed income securities:				
Asset-backed securities	89	—	—	89
Corporate debt securities	1,384	11	—	1,395
Municipal securities	13	—	—	13
Total short-term investments	1,486	11	—	1,497
Total cash, cash equivalents and short-term investments	$ 5,253	$ 11	$ —	$ 5,264

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

(in millions)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	$ 467	$ —	$ —	$ 467
Cash equivalents:				
Corporate debt securities	46	—	—	46
Money market mutual funds	2,049	—	—	2,049
Time deposits	88	—	—	88
Total cash equivalents	2,183	—	—	2,183
Total cash and cash equivalents	2,650	—	—	2,650
Short-term fixed income securities:				
Asset-backed securities	89	—	—	89
Corporate debt securities	1,408	4	—	1,412
Municipal securities	18	—	—	18
U.S. Treasury securities	8	—	—	8
Total short-term investments	1,523	4	—	1,527
Total cash, cash equivalents and short-term investments	$ 4,173	$ 4	$ —	$ 4,177

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

We had immaterial gross unrealized losses related to our available-for-sale securities as of August 28, 2020 and November 29, 2019. The following table summarizes the fair value of our available-for-sale securities that have been in a continuous unrealized loss position as of August 28, 2020 and November 29, 2019:

(in millions)	2020		2019	
	Less Than Twelve Months	**More Than Twelve Months**	**Less Than Twelve Months**	**More Than Twelve Months**
Corporate debt securities	$ 155	$ —	$ 235	$ 44
Asset-backed securities	10	—	7	7
Municipal securities	1	—	3	—
Total	$ 166	$ —	$ 245	$ 51

There were 70 securities and 115 securities in an unrealized loss position for less than twelve months at August 28, 2020 and November 29, 2019, respectively. There were no securities in an unrealized loss position for more than twelve months at August 28, 2020, and 38 securities in an unrealized loss position for more than twelve months at November 29, 2019.

The following table summarizes the cost and estimated fair value of short-term fixed income securities classified as short-term investments based on stated effective maturities as of August 28, 2020:

(in millions)	**Amortized Cost**	**Estimated Fair Value**
Due within one year	$ 890	$ 894
Due between one and two years	393	398
Due between two and three years	176	178
Due after three years	27	27
Total	$ 1,486	$ 1,497

We review our debt securities classified as short-term investments on a regular basis to evaluate whether or not any security has experienced an other-than-temporary decline in fair value. We consider factors such as the length of time and extent to which the market value has been less than the cost, the financial condition and near-term prospects of the issuer and our intent to sell, or whether it is more likely than not we will be required to sell the investment before recovery of the investment’s amortized cost basis. If we believe that an other-than-temporary decline exists in one of these securities, we write down these investments to fair value. The portion of the write-down related to credit loss would be recorded to other income (expense), net in our condensed consolidated statements of income. Any portion not related to credit loss would be recorded to accumulated other comprehensive income, which is reflected as a separate component of stockholders’ equity in our condensed consolidated balance sheets. During the nine months ended August 28, 2020 and August 30, 2019, we did not consider any of our investments to be other-than-temporarily impaired.

NOTE 5. FAIR VALUE MEASUREMENTS

Assets and Liabilities Measured and Recorded at Fair Value on a Recurring Basis

We measure certain financial assets and liabilities at fair value on a recurring basis. There have been no transfers between fair value measurement levels during the nine months ended August 28, 2020.

The fair value of our financial assets and liabilities at August 28, 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	$ 5	$ —	$ 5	$ —
Money market mutual funds	2,937	2,937	—	—
Time deposits	85	85	—	—
Short-term investments:				
Asset-backed securities	89	—	89	—
Corporate debt securities	1,395	—	1,395	—
Municipal securities	13	—	13	—
Prepaid expenses and other current assets:				
Foreign currency derivatives	29	—	29	—
Other assets:				
Deferred compensation plan assets	110	7	103	—
Total assets	$ 4,663	$ 3,029	$ 1,634	$ —
Liabilities:				
Accrued expenses:				
Foreign currency derivatives	$ 5	$ —	$ 5	$ —

ADOBE INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The fair value of our financial assets and liabilities at November 29, 2019 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	$ 46	$ —	$ 46	$ —
Money market mutual funds	2,049	2,049	—	—
Time deposits	88	88	—	—
Short-term investments:				
Asset-backed securities	89	—	89	—
Corporate debt securities	1,412	—	1,412	—
Municipal securities	18	—	18	—
U.S. Treasury securities	8	—	8	—
Prepaid expenses and other current assets:				
Foreign currency derivatives	29	—	29	—
Other assets:				
Deferred compensation plan assets	94	5	89	—
Total assets	$ 3,833	$ 2,142	$ 1,691	$ —
Liabilities:				
Accrued expenses:				
Treasury lock derivatives	$ 30	$ —	$ 30	$ —
Foreign currency derivatives	3	—	3	—
Total liabilities	$ 33	$ —	$ 33	$ —

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

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

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

Our Level 2 over-the-counter foreign currency 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 $4.47 billion as of August 28, 2020, based on observable market prices in less active markets and categorized as Level 2. *See Note 15 for further details regarding our debt.*

NOTE 6. DERIVATIVE FINANCIAL INSTRUMENTS

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

We enter into master netting arrangements to mitigate credit risk in derivative transactions by permitting net settlement of transactions with the same counterparty. We do not offset fair value amounts recognized for derivative instruments under master netting arrangements. We also enter into collateral security agreements with certain of our counterparties to exchange cash collateral when the net fair value of certain derivative instruments fluctuates from contractually established thresholds. Collateral posted is included in prepaid expenses and other current assets and collateral received is included in accrued expenses on our 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, in anticipation of refinancing our $2.25 billion term loan due April 30, 2020 (“Term Loan”) and $900 million 4.75% fixed interest rate senior notes due February 1, 2020 (“2020 Notes”), we entered into Treasury lock agreements with large financial institutions which fixed benchmark U.S. Treasury rates for an aggregate notional amount of $1 billion of our future debt issuance. These derivative instruments 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 15 for further details regarding our debt.*

As of August 28, 2020, we had net derivative losses on our foreign exchange option contracts expected to be recognized within the next 18 months, of which $25 million is 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 $3 million is expected to be recognized into interest expense within the next 12 months.

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

Effective in the third quarter of fiscal 2019, all changes in fair value of our foreign currency cash flow hedges are recorded in accumulated other comprehensive income (loss). Prior to this, we recorded the time value of purchased contracts in other income (expense), net in our condensed consolidated statements of income.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Fair Value Hedges

During the third quarter of fiscal 2014, we entered into interest rate swaps designated as fair value hedge related to our 2020 Notes. The interest rate swaps converted the fixed interest rate on the 2020 Notes to a floating interest rate based on the London Interbank Offered Rate ("LIBOR"). *See Note 15 for further details regarding our debt.*

The interest rate swaps were accounted for as fair value hedges and substantially offset the changes in fair value of the hedged portion of the underlying debt that were attributable to the changes in market risk. Therefore, the gains and losses related to changes in the fair value of the interest rate swaps were included in other income (expense), net in our condensed consolidated statements of income.

During the first quarter of fiscal 2020, our 2020 Notes became due and were paid in conjunction with our debt refinancing. As of August 28, 2020, the interest rate swap agreements had matured and were no longer recognized in our condensed consolidated financial statements.

Non-Designated Hedges

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

The fair value of derivative instruments on our condensed consolidated balance sheets as of August 28, 2020 and November 29, 2019 were as follows:

(in millions)	2020		2019	
	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]	$ 11	$ —	$ 26	$ —
Treasury lock[1]	—	—	—	30
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts[1]	18	5	3	3
Total derivatives	$ 29	$ 5	$ 29	$ 33

[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 (losses) on derivative instruments, net of tax, recognized in our condensed consolidated statements of comprehensive income for the three and nine months ended August 28, 2020 and August 30, 2019 were as follows:

	Three Months		Nine Months	
(in millions)	2020	2019	2020	2019
Derivatives in cash flow hedging relationships:				
Foreign exchange option contracts	$ (33)	$ 16	$ (30)	$ 35
Treasury lock	$ —	$ (43)	$ (1)	$ (43)

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 August 28, 2020 and August 30, 2019 were as follows:

(in millions)	2020			2019	
	Revenue	Interest Expense	Other Income (Expense), Net	Revenue	Other Income (Expense), Net
Derivatives in cash flow hedging relationships:					
Foreign exchange option contracts [1]					
Net gain (loss) reclassified from accumulated other comprehensive income into income, net of tax	$ (1)	$ —	$ —	$ 10	$ —
Treasury lock					
Net gain (loss) reclassified from accumulated other comprehensive income into income, net of tax	$ —	$ (1)	$ —	$ —	$ —
Derivatives not designated as hedging relationships:					
Foreign exchange option contracts	$ —	$ —	$ —	$ 1	$ —
Foreign exchange forward contracts	$ —	$ —	$ 12	$ —	$ (1)

The effects of derivative instruments on our condensed consolidated statements of income for the nine months ended August 28, 2020 and August 30, 2019 were as follows:

(in millions)	2020			2019	
	Revenue	Interest Expense	Other Income (Expense), Net	Revenue	Other Income (Expense), Net
Derivatives in cash flow hedging relationships:					
Foreign exchange option contracts [1]					
Net gain (loss) reclassified from accumulated other comprehensive income into income, net of tax	$ 11	$ —	$ —	$ 28	$ —
Amount excluded from effectiveness testing and ineffective portion	$ —	$ —	$ —	$ —	$ (24)
Treasury lock					
Net gain (loss) reclassified from accumulated other comprehensive income into income, net of tax	$ —	$ (2)	$ —	$ —	$ (1)
Derivatives not designated as hedging relationships:					
Foreign exchange option contracts	$ —	$ —	$ —	$ 1	$ —
Foreign exchange forward contracts	$ —	$ —	$ 5	$ —	$ —

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

NOTE 7. GOODWILL AND OTHER INTANGIBLES

Goodwill as of August 28, 2020 and November 29, 2019 was $10.74 billion and $10.69 billion, respectively. 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 August 28, 2020 and November 29, 2019 were as follows:

(in millions)	2020			2019		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Customer contracts and relationships	$ 1,124	$ (429)	$ 695	$ 1,219	$ (436)	$ 783
Purchased technology	763	(322)	441	759	(223)	536
Trademarks	384	(109)	275	384	(73)	311
Other	227	(193)	34	227	(136)	91
Other intangibles, net	$ 2,498	$ (1,053)	$ 1,445	$ 2,589	$ (868)	$ 1,721

Amortization expense related to other intangibles was $92 million and $281 million for the three and nine months ended August 28, 2020, respectively. Comparatively, amortization expense related to other intangible assets was $102 million and $305 million for the three and nine months ended August 30, 2019, respectively. Of these amounts, $51 million and $158 million were included in cost of revenue for the three and nine months ended August 28, 2020, respectively, and $59 million and $172 million were included in cost of revenue for the three and nine months ended August 30, 2019, respectively.

During the nine months ended August 28, 2020, certain other intangibles associated with our previous acquisitions became fully amortized and were removed from the condensed consolidated balance sheets.

As of August 28, 2020, we expect amortization expense in future periods to be as follows:

(in millions)	Other Intangibles
Remainder of 2020	$ 85
2021	255
2022	224
2023	215
2024	202
Thereafter	464
Total expected amortization expense	$ 1,445

NOTE 8. ACCRUED EXPENSES

Accrued expenses as of August 28, 2020 and November 29, 2019 consisted of the following:

(in millions)	2020	2019
Accrued compensation and benefits	$ 383	$ 318
Accrued bonuses	243	222
Refund liabilities	115	126
Accrued corporate marketing	136	80
Accrued media costs	61	118
Taxes payable	83	83
Royalties payable	33	62
Fair value of derivatives	5	33
Accrued interest expense	8	29
Accrued building rent	—	99
Other	250	229
Accrued expenses	$ 1,317	$ 1,399

Accrued media costs primarily relate to our advertising platform offerings and we ceased pursuing transaction-driven Advertising Cloud deals during the second quarter of fiscal 2020. Other primarily includes general corporate accruals for local and regional expenses, including accruals for fees associated with the cancellation of corporate events. Beginning the first quarter of fiscal 2020, as a result of ASC 842 adoption, accrued building rent is recorded as a reduction to our operating lease right-of-use assets on our condensed consolidated balance sheets. *See Note 1 for further information regarding our adoption of ASC 842.*

NOTE 9. INCOME TAXES

In April 2020, we completed an intra-entity transfer of certain intellectual property rights (“IP rights”) in order to better align the ownership of these rights with how our business operates. The transfer did not result in a taxable gain; however, our foreign subsidiary recognized a deferred tax asset for the book and tax basis difference of the transferred IP rights. As a result of this transaction, we recorded a deferred tax asset, net of valuation allowance, and related tax benefit of $224 million based on the fair value of the transferred IP rights. The tax-deductible amortization related to the transferred IP rights will be recognized over the period of economic benefit.

NOTE 10. STOCK-BASED COMPENSATION

Restricted Stock Units

Restricted stock unit activity for the nine months ended August 28, 2020 was as follows:

	Number of Shares (in millions)	Weighted Average Grant Date Fair Value	Aggregate Fair Value[1] (in millions)
Beginning outstanding balance	8.6	$ 211.95	
Awarded	3.0	$ 352.14	
Released	(3.7)	$ 187.73	
Forfeited	(0.5)	$ 251.12	
Ending outstanding balance	7.4	$ 277.60	$ 3,842
Expected to vest	6.8	$ 275.62	$ 3,510

(1) The aggregate fair value is calculated using the closing stock price as of August 28, 2020 of $516.44.

The total fair value of restricted stock units vested during the nine months ended August 28, 2020 was $1.35 billion.

Performance Shares

In the first quarter of fiscal 2020, the Executive Compensation Committee approved the 2020 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 29, 2019.

As of August 28, 2020, the shares awarded under our 2020, 2019 and 2018 Performance Share Programs remain outstanding and are yet to be achieved.

Performance share activity for the nine months ended August 28, 2020 was as follows:

	Number of Shares (in millions)	Weighted Average Grant Date Fair Value	Aggregate Fair Value[1] (in millions)
Beginning outstanding balance	1.0	$ 199.78	
Awarded	0.6	$ 271.62	
Achieved	(0.8)	$ 118.84	
Forfeited	(0.1)	$ 302.12	
Ending outstanding balance	0.7	$ 328.04	$ 372
Expected to vest	0.7	$ 321.11	$ 336

(1) The aggregate fair value is calculated using the closing stock price as of August 28, 2020 of $516.44.

Under our Performance Share Programs, participants generally have the ability to receive up to 200% of the target number of shares originally granted. Shares awarded during the nine months ended August 28, 2020 include 0.4 million additional shares awarded for the final achievement of the 2017 Performance Share Program which was certified in the first quarter of fiscal 2020. The remaining awarded shares were for the 2020 Performance Share Program. Shares achieved during the nine months ended August 28, 2020 resulted from 200% achievement of target for the 2017 Performance Share Program.

The total fair value of performance shares achieved during the nine months ended August 28, 2020 was $264 million.

Employee Stock Purchase Plan

Prior to April 2020, shares of common stock purchased by eligible employees through our employee stock purchase plans were issued under our 1997 Employee Stock Purchase Plan (“1997 ESPP”). In April 2020, our stockholders approved the 2020 Employee Stock Purchase Plan (“2020 ESPP”) which amended and restated the 1997 ESPP to increase the maximum number of shares of our common stock that may be issued under the plan.

As of August 28, 2020, we had reserved 103.0 million shares of our common stock for issuance under the 2020 ESPP and approximately 12.6 million shares remain available for future issuance.

The assumptions used to value employee stock purchase rights during the nine months ended August 28, 2020 and August 30, 2019 were as follows:

	Three Months		Nine Months	
	2020	**2019**	**2020**	**2019**
Expected life (in years)	0.5 - 2.0	0.5 - 2.0	0.5 - 2.0	0.5 - 2.0
Volatility	36% - 46%	30%	24% - 46%	30% - 35%
Risk free interest rate	0.16% - 0.17%	1.78%	0.16% - 1.58%	1.78% - 2.47%

Employees purchased 1.2 million shares at an average price of $218.37 and 1.5 million shares at an average price of $150.55 for the nine months ended August 28, 2020 and August 30, 2019, respectively. The intrinsic value of shares purchased during the nine months ended August 28, 2020 and August 30, 2019 was $216 million and $179 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 August 28, 2020, there was $1.73 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 2.2 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 August 28, 2020 and August 30, 2019 were as follows:

(in millions)	2020		2019	
Income Statement Classifications	**Restricted Stock Units and Performance Share Awards**	**Stock Purchase Rights and Options**	**Restricted Stock Units and Performance Share Awards**	**Stock Purchase Rights and Options**
Cost of revenue	$ 11	$ 3	$ 10	$ 3
Research and development	111	10	84	10
Sales and marketing	53	12	48	13
General and administrative	29	3	25	3
Total	$ 204	$ 28	$ 167	$ 29

Total stock-based compensation costs included in our condensed consolidated statements of income for the nine months ended August 28, 2020 and August 30, 2019 were as follows:

(in millions)	2020		2019	
Income Statement Classifications	**Restricted Stock Units and Performance Share Awards**	**Stock Purchase Rights and Options**	**Restricted Stock Units and Performance Share Awards**	**Stock Purchase Rights and Options**
Cost of revenue	$ 37	$ 9	$ 30	$ 10
Research and development	319	28	245	28
Sales and marketing	166	29	159	33
General and administrative	81	7	72	8
Total	$ 603	$ 73	$ 506	$ 79

NOTE 11. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

(in millions)	**November 29, 2019**	**Increase / Decrease**	**Reclassification Adjustments**	**August 28, 2020**
Unrealized gains on available-for-sale securities	$ 4	$ 8	$ (1) [1]	$ 11
Net unrealized gains / losses on derivative instruments designated as hedging instruments	(22)	(31)	(3) [2]	(56)
Cumulative foreign currency translation adjustments	(170)	62	—	(108)
Total accumulated other comprehensive income (loss), net of taxes	$ (188)	$ 39	$ (4)	$ (153)

(1) Reclassification adjustments for gains 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 and nine months ended August 28, 2020 and August 30, 2019 were not material.

NOTE 12. STOCK REPURCHASE PROGRAM

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

During the nine months ended August 28, 2020 and August 30, 2019, we entered into several structured stock repurchase agreements with large financial institutions, whereupon we provided them with prepayments totaling $2.2 billion and $2 billion, respectively. We enter into these agreements in order to take advantage of repurchasing shares at a guaranteed discount to the Volume Weighted Average Price (“VWAP”) of our common stock over a specified period of time. We only enter into such transactions when the discount that we receive is higher than the foregone return on our cash prepayments to the financial institutions. There were no explicit commissions or fees on these structured repurchases. Under the terms of the agreements, there is no requirement for the financial institutions to return any portion of the prepayment to us.

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

During the nine months ended August 28, 2020, we repurchased approximately 6.5 million shares at an average price of $350.72 through structured repurchase agreements entered into during fiscal 2019 and the nine months ended August 28, 2020. During the nine months ended August 30, 2019 we repurchased approximately 7.1 million shares at an average price of $266.96 through structured repurchase agreements entered into during fiscal 2018 and the nine months ended August 30, 2019.

For the nine months ended August 28, 2020, 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 August 28, 2020 were excluded from the computation of earnings per share. As of August 28, 2020, $167 million of prepayment remained under this agreement.

Subsequent to August 28, 2020, 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 $850 million. Upon completion of the $850 million stock repurchase agreement, $2.05 billion remains under our May 2018 authority.

NOTE 13. NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted net income per share for the three and nine months ended August 28, 2020 and August 30, 2019:

	Three Months		Nine Months	
(in millions, except per share data)	2020	2019	2020	2019
Net income	$ 955	$ 793	$ 3,010	$ 2,100
Shares used to compute basic net income per share	480.2	485.8	481.3	487.1
Dilutive potential common shares:				
Restricted stock units and performance share awards	4.4	4.8	4.2	4.9
Stock purchase rights and options	0.3	0.4	0.3	0.5
Shares used to compute diluted net income per share	484.9	491.0	485.8	492.5
Basic net income per share	$ 1.99	$ 1.63	$ 6.25	$ 4.31
Diluted net income per share	$ 1.97	$ 1.61	$ 6.20	$ 4.26
Anti-dilutive potential common shares [1]	—	0.1	0.4	0.1

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

NOTE 14. COMMITMENTS AND CONTINGENCIES

Royalties

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

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

Legal Proceedings

In connection with disputes relating to the validity or alleged infringement of third-party intellectual property rights, including patent rights, we have been, are currently and may in the future be subject to claims, negotiations or complex, protracted litigation. Intellectual property disputes and litigation may be very costly and can be disruptive to our business operations by diverting the attention and energies of management and key technical personnel. Although we have successfully defended or resolved past litigation and disputes, we may not prevail in any ongoing or future litigation and disputes. Third-party intellectual property disputes could subject us to significant liabilities, require us to enter into royalty and licensing arrangements on unfavorable terms, prevent us from licensing certain of our products or offering certain of our services, subject us to injunctions restricting our sale of products or services, cause severe disruptions to our operations or the markets in which we compete, or require us to satisfy indemnification commitments with our customers including contractual provisions under various license arrangements and service agreements.

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

We make a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Unless otherwise specifically disclosed in this note, we have determined that no provision for liability nor disclosure is required related to any claim against us because: (a) there is not a reasonable possibility that a loss exceeding amounts already recognized (if any) may be incurred with respect to such claim; (b) a reasonably possible loss or range of loss cannot be estimated; or (c) such estimate or provision for liability 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 15. DEBT

The carrying values of our borrowings as of August 28, 2020 and November 29, 2019 were as follows:

(dollars in millions)	Issuance Date	Due Date	Effective Interest Rate	August 28, 2020	November 29, 2019
4.75% 2020 Notes	February 2010	February 2020	4.92%	$ —	$ 900
1.70% 2023 Notes	February 2020	February 2023	1.92%	500	—
1.90% 2025 Notes	February 2020	February 2025	2.07%	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	—
2.30% 2030 Notes	February 2020	February 2030	2.69%	1,300	—
Term Loan	October 2018	April 2020	2.47%	—	2,250
Total debt outstanding, at par				$ 4,150	$ 4,150
Less: Current portion of debt				—	(3,150)
Unamortized discount and debt issuance costs				(34)	(11)
Carrying value of long-term debt				$ 4,116	$ 989
Current portion of debt, at par				$ —	$ 3,150
Unamortized discount and debt issuance costs				—	(1)
Carrying value of current debt				$ —	$ 3,149

Term Loan

In October 2018, we entered into a credit agreement providing a $2.25 billion senior unsecured term loan (“Term Loan”) with a maturity date of April 30, 2020. The Term Loan ranked equally with our other unsecured and unsubordinated indebtedness. There were no scheduled principal amortization payments prior to maturity and the Term Loan could be prepaid and terminated at our election at any time without penalty or premium. At our election, the Term Loan bore interest at either (i) LIBOR plus a margin, based on our debt ratings, ranging from 0.500% to 1.000% or (ii) a base rate plus a margin, based on our debt ratings, ranging from 0.040% to 0.110%. The related issuance costs were amortized to interest expense over the Term Loan period using the effective interest method. Interest was payable periodically, in arrears, at the end of each interest period we elect. The Term Loan was paid and terminated in conjunction with our debt refinancing during the first quarter of fiscal 2020.

2020 Notes

In February 2010, we issued $900 million of 4.75% senior notes due February 1, 2020 (“2020 Notes”). The related discount and issuance costs were amortized to interest expense over the term of the 2020 Notes using the effective interest method. The 2020 Notes became due and were paid in conjunction with our debt refinancing during the first quarter of fiscal 2020.

We entered into interest rate swaps with a total notional amount of $900 million designated as a fair value hedge related to our 2020 Notes in fiscal 2014. The interest rate swaps effectively converted the fixed interest rate on our 2020 Notes to a floating interest rate based on LIBOR. The interest rate swap agreements also matured during the first quarter of fiscal 2020. *See Note 6 for further details regarding our interest rate swap derivatives.*

Debt Refinancing

In February 2020, we issued $500 million of 1.70% senior notes due February 1, 2023 (“2023 Notes”), $500 million of 1.90% senior notes due February 1, 2025 (“1.90% 2025 Notes”), $850 million of 2.15% senior notes due February 1, 2027 (“2027 Notes”) and $1.30 billion of 2.30% senior notes due February 1, 2030 (“2030 Notes”). Interest is payable semi-annually, in arrears on February 1 and August 1 commencing on August 1, 2020. Our total proceeds were approximately $3.14 billion, used for general corporate purposes including repayment of the 2020 Notes and Term Loan, and were net of an issuance discount of $6 million. In addition, we incurred total issuance costs of approximately $21 million. Both the discount and issuance costs are being amortized to interest expense over the respective terms of the senior notes using the effective interest method.

In June 2019, in anticipation of our debt refinancing, 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. Upon debt issuance, the Treasury lock agreements were settled and we incurred a loss which is amortized to interest expense over the term of our 2030 Notes using the effective interest method. *See Note 6 for further details regarding our Treasury lock agreements.*

3.25% 2025 Notes

In January 2015, we issued $1 billion of 3.25% senior notes due February 1, 2025 (“3.25% 2025 Notes”) which remain outstanding as of August 28, 2020. The related discount and issuance costs were amortized to interest expense over the term of the 3.25% 2025 Notes using the effective interest method. Interest is payable semi-annually, in arrears on February 1 and August 1.

As of August 28, 2020, our outstanding notes payable consists of the 2023 Notes, 1.90% 2025 Notes, 3.25% 2025 Notes, 2027 Notes and 2030 Notes (collectively, the “Notes”). Based on quoted prices in inactive markets, the total fair value of our outstanding Notes was $4.47 billion as of August 28, 2020.

Our Notes rank equally with our other unsecured and unsubordinated indebtedness. We may redeem the notes at any time, subject to a make-whole premium. In addition, upon the occurrence of certain change of control triggering events, we may be required to repurchase the notes, at a price equal to 101% of their principal amount, plus accrued and unpaid interest to the date of repurchase. The notes also include covenants that limit our ability to grant liens on assets and to enter into sale and leaseback transactions, subject to significant allowances. As of August 28, 2020, we were in compliance with all of the covenants.

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.

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 August 28, 2020, there were no outstanding borrowings under this Credit Agreement and we were in compliance with all covenants.

NOTE 16. LEASES

We lease certain facilities and data centers under non-cancellable operating lease arrangements that expire at various dates through 2031. We also have one land lease that expires in 2091. We account for lease and non-lease components as a single lease component for our facilities and data center leases. We apply the accounting requirements of ASC 842 to short-term leases. Therefore, leases with an initial term of 12 months or less are recorded on the balance sheet, with lease expense for these leases recognized on a straight-line basis over the lease term. Our lease agreements do not contain any material residual value guarantees, material variable payment provisions or material restrictive covenants.

Operating lease expense was $31 million and $90 million for the three and nine months ended August 28, 2020, respectively, which we recognized in cost of revenue and operating expenses in our condensed consolidated statements of income. The operating lease expense includes variable lease costs and is net of sublease income, both of which are not material.

Supplemental cash flow information for the nine months ended August 28, 2020 related to operating leases was as follows:

(in millions)

Cash paid for amounts included in the measurement of operating lease liabilities	$	74
Right-of-use assets obtained in exchange for operating lease liabilities	$	50

The weighted-average remaining lease term and weighted-average discount rate for our operating lease liabilities as of August 28, 2020 were 9 years and 2.32%, respectively.

As of August 28, 2020, the maturities of lease liabilities under operating leases are as follows:

(in millions)

Fiscal Year		**Operating Leases** [(1)]
Remainder of 2020	$	18
2021		110
2022		89
2023		72
2024		59
Thereafter		331
Total lease liabilities	$	679
Less: Imputed interest		69
Present value of lease liabilities	$	610

[(1)] Operating lease payments exclude $17 million of legally binding minimum lease payments for leases signed but not yet commenced.

Future minimum rental payments and future minimum sublease income for our operating leases as of November 29, 2019, prior to our adoption of the new leases standard, were as follows:

(in millions)	Operating Leases	
Fiscal Year	**Future Minimum Rental Payments**	**Future Minimum Sublease Income**
2020	$ 98	$ 10
2021	92	9
2022	81	6
2023	69	2
2024	61	—
Thereafter	338	—
Total	$ 739	$ 27

NOTE 17. NON-OPERATING INCOME (EXPENSE)

Non-operating income (expense) for the three and nine months ended August 28, 2020 and August 30, 2019 included the following:

	Three Months		Nine Months	
(in millions)	**2020**	**2019**	**2020**	**2019**
Interest expense	$ (28)	$ (40)	$ (89)	$ (121)
Investment gains (losses), net:				
Realized investment gains	$ 1	$ 1	$ 4	$ 45
Realized investment losses	—	—	(1)	—
Unrealized investment gains, net	9	3	4	2
Investment gains (losses), net	$ 10	$ 4	$ 7	$ 47
Other income (expense), net:				
Interest income	$ 7	$ 18	$ 37	$ 50
Foreign exchange gains (losses)	1	(1)	1	(26)
Other	1	—	1	—
Other income (expense), net	$ 9	$ 17	$ 39	$ 24
Non-operating income (expense), net	$ (9)	$ (19)	$ (43)	$ (50)

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, the amount of 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 ("SEC"), including our Annual Report on Form 10-K for fiscal 2019. 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, marketers, knowledge workers, application developers, enterprises and consumers for creating, managing, delivering, measuring, optimizing and engaging 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 certain 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 third quarter of fiscal 2020, 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. In addition, we continued to wind down our transaction-driven Advertising Cloud offerings during the third quarter of fiscal 2020, which, as expected, continued to negatively impact Digital Experience revenue growth during the quarter.

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 Adobe 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 obligation as ARR is a performance metric and is not intended to be combined with any of these items. We adjust our reported ARR on an annual basis to reflect any material exchange rates changes. Our reported ARR results in the current fiscal year are based on currency rates set at the beginning of the year and held constant throughout the year. We calculate ARR as follows:

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

Creative ARR exiting the third quarter of fiscal 2020 was $8.29 billion, up from $7.25 billion at the end of fiscal 2019. Document Cloud ARR exiting the third quarter of fiscal 2020 was $1.34 billion, up from $1.08 billion at the end of fiscal 2019. Total Digital Media ARR grew to $9.63 billion at the end of the third quarter of fiscal 2020, up from $8.33 billion at the end of fiscal 2019.

Our success in driving growth in ARR has positively affected our revenue growth. Creative revenue in the third quarter of fiscal 2020 was $1.96 billion, up from $1.65 billion in the third quarter of fiscal 2019, representing 19% year-over-year growth. Document Cloud revenue in the third quarter of fiscal 2020 was $375 million, up from $307 million in the third quarter of fiscal 2019, representing 22% 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 $2.34 billion in the third quarter of fiscal 2020, up from $1.96 billion in the third quarter of fiscal 2019, representing 19% year-over-year growth. These increases were driven by strong net new user growth, including those resulting from the current work-from-home environment 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.

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

- *Data and insights*. Our solutions deliver real-time customer profiles and intelligence across the customer journey. Our offerings include Adobe Analytics, Adobe Audience Manager, Adobe Experience Platform, Customer Journey Analytics and Real-time Customer Data Platform.
- *Content and commerce*. We offer solutions to help customers manage, deliver, test, target and optimize content delivery and enable shopping experiences that scale from mid-market to enterprise businesses. Our offerings include Adobe Experience Manager, Adobe Target and Magento 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.

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. We continue to offer our Advertising Cloud software solutions, but they are not expected to be areas of revenue growth.

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 was $838 million in the third quarter of fiscal 2020, up from $821 million in the third quarter of fiscal 2019, representing 2% year-over-year growth. Driving this slight increase was the increase in subscription revenue, which grew to $729 million in the third quarter of fiscal 2020 from $679 million in the third quarter of fiscal 2019, representing 7% year-over-year growth. Excluding Advertising Cloud, Digital Experience subscription revenue grew 14% year-over-year. We continue to wind down our transaction-driven Advertising Cloud offerings which we expect to continue to negatively impact revenue growth and result in reductions in the related cost of revenue and improved Digital Experience gross margin percentage.

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 global 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 such as Adobe Summit and MAX, with digital events through June 2021.

The broader implications of the pandemic on our results of operations and overall financial performance remain uncertain. The pandemic and its adverse effects have become more prevalent in the locations where we, our customers, suppliers or third-party business partners conduct business and as a result, we are experiencing more pronounced disruptions in our operations. We have experienced and may continue to experience constrained supply or curtailed customer demand that could materially adversely impact our business, results of operations and overall financial performance in future periods.

We continue to experience some impact from delays in enterprise transactions and consulting services implementations due to continued economic challenges with enterprise customers in certain verticals, as well as weakness in our commercial segment that targets small- and medium-sized businesses. In addition, the significant global decline in advertising spending and the wind-down of our transaction-based Advertising Cloud offerings has impacted our Advertising Cloud revenue.

While our revenue and earnings are relatively predictable as a result of our subscription-based business model, the effect of the pandemic will not be fully reflected in our results of operations and overall financial performance until future periods. *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. On a regular basis, we evaluate our assumptions, judgments and estimates. We also discuss our critical accounting policies and estimates with the Audit Committee of the Board of Directors.

We believe that the assumptions, judgments and estimates involved in the accounting for revenue recognition, business combinations and income taxes have the greatest potential impact on our 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 nine months ended August 28, 2020, 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 29, 2019.

The pandemic has created and may continue to create significant uncertainty in the macroeconomic environment which, in addition to other unforeseen effects of this pandemic, may adversely impact our results of operations. As a result, most of our estimates and assumptions may require increased judgment and carry a higher degree of variability and volatility. As events continue to evolve and additional information becomes available, our estimates may change materially in future periods.

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

Financial Performance Summary

- Total Digital Media ARR of approximately $9.63 billion as of August 28, 2020 increased by $1.30 billion, or 16%, from $8.33 billion as of November 29, 2019. 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 August 28, 2020 of $1.96 billion increased by $307 million, or 19%, compared to the year-ago period. Document Cloud revenue during the three months ended August 28, 2020 of $375 million increased by $68 million, or 22%, 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 $838 million during the three months ended August 28, 2020 increased slightly by $17 million, or 2%, compared to the year-ago period. The increase was primarily due to the increase in subscription revenue across our offerings, offset in part by decreases in revenue associated with our transaction-driven Advertising Cloud offerings which we began to discontinue during the second quarter of fiscal 2020.

- Remaining performance obligation of $10.34 billion as of August 28, 2020 increased by $518 million, or 5%, from $9.82 billion as of November 29, 2019 primarily due to increases in new contracts and renewals for our Digital Media offerings.
- Cost of revenue of $427 million during the three months ended August 28, 2020 increased slightly by $11 million, or 3%, compared to the year-ago period primarily due to increases in hosting services and data center costs, offset in large part by decreases in Advertising Cloud media costs.
- Operating expenses of $1.73 billion during the three months ended August 28, 2020 increased by $165 million, or 11%, compared to the year-ago period primarily due to increases in base compensation and related benefits costs and stock-based compensation expense associated with headcount growth, as well as increased marketing spend. These increases were offset in part by decreases in travel-related expenses.
- Net income of $955 million during the three months ended August 28, 2020 increased by $162 million, or 20%, compared to the year-ago period primarily due to increases in revenue, offset in part by increases in operating expenses.
- Net cash flows from operations of $3.95 billion during the nine months ended August 28, 2020 increased by $900 million, or 30%, compared to the year-ago period primarily due to higher net income adjusted for the net effect of non-cash items.

Revenue for the Three and Nine Months Ended August 28, 2020 and August 30, 2019

(dollars in millions)	Three Months			Nine Months		
	2020	2019	% Change	2020	2019	% Change
Subscription	$ 3,000	$ 2,547	18 %	$ 8,699	$ 7,308	19 %
Percentage of total revenue	93 %	90 %		92 %	89 %	
Product	109	157	(31)%	380	480	(21)%
Percentage of total revenue	3 %	6 %		4 %	6 %	
Services and support	116	130	(11)%	365	391	(7)%
Percentage of total revenue	4 %	4 %		4 %	5 %	
Total revenue	$ 3,225	$ 2,834	14 %	$ 9,444	$ 8,179	15 %

Subscription Revenue by Segment

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 our agreements with customers, beginning with commencement of service. Subscription revenue related to certain offerings, where fees are based on a number of transactions or impressions per month 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. Subscription revenue by reportable segment for the three and nine months ended August 28, 2020 and August 30, 2019 is as follows:

(dollars in millions)	Three Months			Nine Months		
	2020	2019	% Change	2020	2019	% Change
Digital Media	$ 2,240	$ 1,841	22 %	$ 6,433	$ 5,278	22 %
Digital Experience	729	679	7 %	2,175	1,945	12 %
Publishing	31	27	15 %	91	85	7 %
Total subscription revenue	$ 3,000	$ 2,547	18 %	$ 8,699	$ 7,308	19 %

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.

Our services and support revenue is comprised of consulting, training and maintenance and support, primarily related to the licensing of our enterprise offerings. Our support revenue also includes technical support and developer support to partners and developer organizations related to our desktop products. We typically sell our consulting contracts on a time-and-materials 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 to receive desktop product upgrades and enhancements or technical support, depending on the offering, are generally recognized ratably over the term of the arrangement as we satisfy the performance obligations to our customers.

Segment Information

(dollars in millions)	Three Months			Nine Months		
	2020	2019	% Change	2020	2019	% Change
Digital Media	$ 2,337	$ 1,962	19 %	$ 6,738	$ 5,629	20 %
Percentage of total revenue	72 %	69 %		71 %	69 %	
Digital Experience	838	821	2 %	2,522	2,348	7 %
Percentage of total revenue	26 %	29 %		27 %	29 %	
Publishing	50	51	(2)%	184	202	(9)%
Percentage of total revenue	2 %	2 %		2 %	2 %	
Total revenue	$ 3,225	$ 2,834	14 %	$ 9,444	$ 8,179	15 %

Digital Media

Revenue from Digital Media increased $375 million and $1.11 billion during the three and nine months ended August 28, 2020, as compared to the three and nine months ended August 30, 2019 driven by increases in revenue associated with our Creative and Document Cloud offerings due to increased demand and digital engagement amid the work-from-home environment.

Revenue associated with our Creative offerings increased during the three and nine months ended August 28, 2020 as compared to the year-ago periods primarily due to increases in net new subscriptions across our Creative Cloud offerings.

Document Cloud revenue increased during the three and nine months ended August 28, 2020 as compared to the year-ago periods primarily due to increases in subscription revenue driven by strong adoption of our Document Cloud offerings including Adobe Sign.

Digital Experience

Revenue from Digital Experience increased $17 million and $174 million during the three and nine months ended August 28, 2020, as compared to the three and nine months ended August 30, 2019 primarily due to increases in subscription revenue across our offerings. These subscription revenue increases were offset in part by decreases in revenue associated with our transaction-driven Advertising Cloud offerings which we began to discontinue during the second quarter of fiscal 2020. We expect that the wind-down of these offerings will negatively impact Digital Experience revenue growth.

Geographical Information

(dollars in millions)	Three Months			Nine Months		
	2020	2019	% Change	2020	2019	% Change
Americas	$ 1,873	$ 1,639	14 %	$ 5,481	$ 4,748	15 %
Percentage of total revenue	58 %	58 %		58 %	58 %	
EMEA	851	755	13 %	2,493	2,187	14 %
Percentage of total revenue	26 %	27 %		26 %	27 %	
APAC	501	440	14 %	1,470	1,244	18 %
Percentage of total revenue	16 %	15 %		16 %	15 %	
Total revenue	$ 3,225	$ 2,834	14 %	$ 9,444	$ 8,179	15 %

Overall revenue during the three and nine months ended August 28, 2020 increased in all geographic regions as compared to the three and nine months ended August 30, 2019 primarily due to increases in Digital Media revenue and, to a lesser extent, increases in 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 and nine months ended August 28, 2020 were impacts associated with foreign currency as shown below. Our currency hedging program is used to mitigate a portion of the foreign currency impact to revenue.

(in millions)	**Three Months**	**Nine Months**
Revenue impact:	**Increase/(Decrease)**	
Euro	$ (5)	$ (41)
British Pound	(2)	(9)
Japanese Yen	4	10
Australian Dollar	(4)	(19)
Brazilian Real	(5)	(9)
Other currencies	(2)	(10)
Total revenue impact	(14)	(78)
Hedging impact:		
Euro	—	11
Japanese Yen	(1)	—
Total hedging impact	(1)	11
Total impact	$ (15)	$ (67)

During the three and nine months ended August 28, 2020, the U.S. Dollar primarily strengthened against EMEA currencies and the Australian Dollar as compared to the three and nine months ended August 30, 2019, which decreased revenue in U.S. Dollar equivalents. For the nine months ended August 28, 2020, the foreign currency impact to revenue was offset in part by hedging gains primarily from our EMEA currencies hedging program.

Cost of Revenue for the Three and Nine Months Ended August 28, 2020 and August 30, 2019

(dollars in millions)	**Three Months**			**Nine Months**		
	2020	**2019**	**% Change**	**2020**	**2019**	**% Change**
Subscription	$ 328	$ 304	8 %	$ 1,000	$ 888	13 %
Percentage of total revenue	10 %	11 %		11 %	11 %	
Product	10	9	11 %	26	31	(16)%
Percentage of total revenue	*	*		*	*	
Services and support	89	103	(14)%	268	302	(11)%
Percentage of total revenue	3 %	4 %		3 %	4 %	
Total cost of revenue	$ 427	$ 416	3 %	$ 1,294	$ 1,221	6 %

(*) Percentage is less than 1%.

Subscription

Cost of subscription revenue consists of third-party royalties and expenses related to operating our network infrastructure, including depreciation expense, data center costs, salaries and related expenses of network operations, implementation, account management and technical support personnel, amortization of certain intangible assets and allocated overhead. We enter into contracts with third parties for hosting services and use of data center facilities. Our data center costs largely consist of the amounts we pay to these third parties for rack space, power and similar items. Cost of subscription revenue also includes media costs related to impressions purchased from third-party ad inventory sources. We began to discontinue our transaction-driven Advertising Cloud offerings in the second quarter of fiscal 2020, which we expect will result in reductions to media costs.

Cost of subscription revenue increased during the three and nine months ended August 28, 2020 as compared to the three and nine months ended August 30, 2019 due to the following:

	Components of % Change 2020-2019 QTD	Components of % Change 2020-2019 YTD
Hosting services and data center costs	10 %	8 %
Base compensation and related benefits associated with headcount	3	2
Incentive compensation, cash and stock-based	1	3
Royalty costs	—	2
Media costs	(5)	(2)
Various individually insignificant items	(1)	—
Total change	8 %	13 %

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 Support

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

Cost of services and support revenue decreased during the three and nine months ended August 28, 2020 as compared to the three and nine months ended August 30, 2019 primarily due to decreases in base compensation and related benefits associated with headcount.

Operating Expenses for the Three and Nine Months Ended August 28, 2020 and August 30, 2019

(dollars in millions)	Three Months			Nine Months		
	2020	2019	% Change	2020	2019	% Change
Research and development	$ 566	$ 490	16 %	$ 1,630	$ 1,430	14 %
Percentage of total revenue	18 %	17 %		17 %	17 %	
Sales and marketing	892	812	10 %	2,650	2,443	8 %
Percentage of total revenue	28 %	29 %		28 %	30 %	
General and administrative	230	219	5 %	725	654	11 %
Percentage of total revenue	7 %	8 %		8 %	8 %	
Amortization of intangibles	41	43	(5)%	123	133	(8)%
Percentage of total revenue	1 %	2 %		1 %	2 %	
Total operating expenses	$ 1,729	$ 1,564	11 %	$ 5,128	$ 4,660	10 %

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 and nine months ended August 28, 2020 as compared to the three and nine months ended August 30, 2019 primarily due to the following:

	Components of % Change 2020-2019 QTD	Components of % Change 2020-2019 YTD
Incentive compensation, cash and stock-based	13 %	11 %
Base compensation and related benefits associated with headcount	2	3
Various individually insignificant items	1	—
Total change	16 %	14 %

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, public relations and other market development programs.

Sales and marketing expenses increased during the three and nine months ended August 28, 2020 as compared to the three and nine months ended August 30, 2019 primarily due to the following:

	Components of % Change 2020-2019 QTD	Components of % Change 2020-2019 YTD
Marketing spend related to campaigns, events and overall marketing efforts	9 %	6 %
Incentive compensation, cash and stock-based	4	3
Base compensation and related benefits associated with headcount	—	1
Transaction fees	3	2
Travel	(4)	(3)
Various individually insignificant items	(2)	(1)
Total change	10 %	8 %

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 and nine months ended August 28, 2020 as compared to the three and nine months ended August 30, 2019 primarily due to the following:

	Components of % Change 2020-2019 QTD	Components of % Change 2020-2019 YTD
Bad debt expense	6 %	5 %
Incentive compensation, cash and stock-based	6	4
Base compensation and related benefits associated with headcount	1	1
Charges related to cancellation of corporate events	(7)	3
Travel	(2)	(2)
Charitable contributions	5	3
Various individually insignificant items	(4)	(3)
Total change	5 %	11 %

Bad debt expense increased during the three and nine months ended August 28, 2020 as compared to the three and nine months ended August 30, 2019 primarily due to specific reserves for certain categories of customers that were more impacted by the changes in the macroeconomic environment as a result of the pandemic.

During the nine months ended August 28, 2020, we recorded charges related to the cancellation of our corporate events due to concerns over the pandemic. During the three months ended August 28, 2020, certain of these charges were reversed as we successfully negotiated the right to apply certain commitments to other events.

Amortization of Intangibles

Amortization expenses decreased during the three and nine months ended August 28, 2020 as compared to the three and nine months ended August 30, 2019 primarily due to certain acquired intangible assets becoming fully amortized during the current period.

Non-Operating Income (Expense), Net for the Three and Nine Months Ended August 28, 2020 and August 30, 2019

(dollars in millions)	Three Months			Nine Months		
	2020	2019	% Change	2020	2019	% Change
Interest expense	$ (28)	$ (40)	(30)%	$ (89)	$ (121)	(26)%
Percentage of total revenue	(1)%	(1)%		(1)%	(1)%	
Investment gains (losses), net	10	4	**	7	47	**
Percentage of total revenue	*	*		*	1 %	
Other income (expense), net	9	17	**	39	24	**
Percentage of total revenue	*	1 %		*	*	
Total non-operating income (expense), net	$ (9)	$ (19)	**	$ (43)	$ (50)	**

(*) Percentage is less than 1%.
(**) Percentage is not meaningful.

Interest Expense

Interest expense represents interest associated with our debt instruments. Interest on our Notes is payable semi-annually, in arrears, on February 1 and August 1. Interest on our Term Loan, which was terminated in the first quarter of fiscal 2020, was payable periodically at the end of each interest period. Floating interest payments on the interest rate swaps, which matured in the first quarter of fiscal 2020, was paid monthly and the fixed-rate interest receivable on the swaps was received semi-annually concurrent with the Notes interest payments.

Interest expense decreased during the three and nine months ended August 28, 2020 as compared to the three and nine months ended August 30, 2019 primarily due to lower average interest rates on our debt instruments that were refinanced in the first quarter of fiscal 2020. *See Note 15 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.

Investment gains (losses), net decreased during the nine months ended August 28, 2020 as compared to the nine months ended August 30, 2019 primarily due to the gain recognized upon our acquisition of the remaining interest in Allegorithmic in January 2019.

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 August 28, 2020 as compared to the three months ended August 30, 2019 primarily due to decreases in interest income driven by lower average interest rates. Other income (expense), net increased during the nine months ended August 28, 2020 as compared to the nine months ended August 30, 2019 primarily due to our change in methodology of accounting for foreign currency cash flow hedges. Effective in the third quarter of fiscal 2019, expenses associated with the option premiums, which were previously recorded in other income (expense), net, are recorded in accumulated other comprehensive income.

Provision for (Benefit from) Income Taxes for the Three and Nine Months Ended August 28, 2020 and August 30, 2019

(dollars in millions)	**Three Months**			**Nine Months**		
	2020	**2019**	**% Change**	**2020**	**2019**	**% Change**
Provision for (benefit from) income taxes	$ 105	$ 42	150 %	$ (31)	$ 148	(121)%
Percentage of total revenue	3 %	1 %		— %	2 %	
Effective tax rate	10 %	5 %		(1)%	7 %	

Our effective tax rate increased by approximately 5 percentage points for the three months ended August 28, 2020, as compared to the three months ended August 30, 2019, primarily due to certain tax benefits that we were entitled to upon filing and concluding examinations of our income tax returns in the three months ended August 30, 2019. Our effective tax rate decreased by approximately 8 percentage points for the nine months ended August 28, 2020, as compared to the nine months ended August 30, 2019, primarily due to the tax benefit resulting from an intra-entity transfer of certain intellectual property rights (“IP rights”).

Our effective tax rates for the three and nine months ended August 28, 2020 were lower than the U.S. federal statutory tax rate of 21% primarily due to a favorable geographic mix of earnings and tax benefits related to stock-based compensation. Our effective tax rate for the nine months ended August 28, 2020 also included a tax benefit for the intra-entity transfer of IP rights.

In April 2020, we completed an intra-entity transfer of certain IP rights in order to better align the ownership of these rights with how our business operates. The transfer did not result in a taxable gain; however, our foreign subsidiary recognized a deferred tax asset for the book and tax basis difference of the transferred IP rights. As a result of this transaction, we recorded a deferred tax asset, net of valuation allowance, and related tax benefit of $224 million based on the fair value of the transferred IP rights. The tax-deductible amortization related to the transferred IP rights will be recognized over the period of economic benefit.

Certain international provisions of the U.S. Tax Act, such as a tax on global intangible low-tax income, a base erosion and anti-abuse tax and a special tax deduction for foreign-derived intangible income, took effect in fiscal 2019. As the U.S. Treasury releases regulations that impact these provisions, we account for finalized regulations in the period of enactment.

We recognize deferred tax assets to the extent that we believe these assets are more likely than not to be realized. In making such a determination, we considered all available positive and negative evidence, including our past operating results, forecasted earnings, future taxable income and prudent and feasible tax planning strategies. On the basis of this evaluation, we continue to maintain a valuation allowance to reduce our deferred tax assets to the amount realizable. The total valuation allowance was $289 million as of August 28, 2020 and is primarily attributable to certain state and foreign credits.

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

In June 2020, California enacted legislation which includes a limitation on the utilization of research and development tax credits for a three-year period beginning in fiscal 2021. As we are still in the process of evaluating the legislation, the net impact of the legislation is uncertain but is anticipated to increase our California tax and, consequently, adversely impact our effective tax rates for the three-year period beginning in fiscal 2021.

During the fourth quarter of fiscal 2020, we anticipate making an additional change to our international trading structure, which is also aimed to better align our ownership of certain IP rights with how our business operates. Under the current rules, this change, if completed, will result in the recording of an additional discrete tax benefit in the fiscal 2020 effective income tax rate related to the transferred IP rights, which is deductible in future periods. The net impact of such change is uncertain but is anticipated to adversely affect our effective income tax rate and cash flows in years beyond fiscal 2020. However, we expect cash paid for income taxes will be at a lower effective rate than our effective income tax rate for the provision for income taxes due to the future deductions on the transferred IP rights.

Accounting for Uncertainty in Income Taxes

The gross liabilities for unrecognized tax benefits excluding interest and penalties were $169 million and $171 million as of August 28, 2020 and August 30, 2019, respectively. If the total unrecognized tax benefits at August 28, 2020 and August 30, 2019 were recognized in the future, $121 million and $112 million would decrease the respective effective tax rates.

The combined amount of accrued interest and penalties related to tax positions taken on our tax returns were approximately $25 million and $23 million as of August 28, 2020 and August 30, 2019, respectively. These amounts were included in long-term income taxes payable in their respective years.

The timing of the resolution of income tax examinations is highly uncertain as are the amounts and timing of tax payments that are part of any audit settlement process. These events could cause large fluctuations in the balance sheet classification of our tax assets and liabilities. We believe that within the next 12 months, it is reasonably possible that either certain audits will conclude or statutes of limitations on certain income tax examination periods will expire, or both. Given the uncertainties described above, we can only determine a range of estimated potential decreases in underlying unrecognized tax benefits ranging from $0 to approximately $10 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 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 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.

	As of	
(in millions)	August 28, 2020	November 29, 2019
Cash and cash equivalents	$ 3,767	$ 2,650
Short-term investments	$ 1,497	$ 1,527
Working capital	$ 2,257	$ (1,696)
Stockholders' equity	$ 11,713	$ 10,530

Working Capital

Working capital was $2.26 billion of a surplus as of August 28, 2020 and $1.70 billion of a deficit as of November 29, 2019. During the first quarter of fiscal 2020, we refinanced our $2.25 billion term loan due April 30, 2020 ("Term Loan") and $900 million 4.75% senior notes due February 1, 2020 ("2020 Notes"). *See the section titled "Cash Flows from Financing Activities" below.*

A summary of our cash flows is as follows:

	Nine Months Ended	
(in millions)	August 28, 2020	August 30, 2019
Net cash provided by operating activities	$ 3,945	$ 3,045
Net cash used for investing activities	(283)	(287)
Net cash used for financing activities	(2,548)	(2,180)
Effect of foreign currency exchange rates on cash and cash equivalents	3	(12)
Net increase in cash and cash equivalents	$ 1,117	$ 566

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 payroll-related expenses, general operating expenses including marketing, travel and office rent, and cost of revenue. Other uses of cash include our stock repurchase program as described below, 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 $3.95 billion for the nine months ended August 28, 2020 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 decreases in trade receivables, which were offset in part by increases in prepaid expenses and other assets. Decreases in trade receivables were largely attributable to strong collections during the first quarter of fiscal 2020. The primary working capital use of cash was due to increases in prepaid expenses and other assets driven by sales commissions paid and capitalized, increases in prepaid expenses due to the timing of billings and payments associated with certain vendors, and increases in prepaid payroll related to employee benefits.

Cash Flows from Investing Activities

Net cash used for investing activities of $283 million for the nine months ended August 28, 2020 was primarily due to ongoing capital expenditures. These cash outflows were offset in part by proceeds from sales and maturities of short-term investments, net of purchases.

Cash Flows from Financing Activities

Net cash used for financing activities of $2.55 billion for the nine months ended August 28, 2020 was primarily due to payments for our treasury stock repurchases and taxes paid related to the net share settlement of equity awards, which were offset by proceeds from re-issuance of treasury stock mainly for our employee stock purchase plan. *See the section titled "Stock Repurchase Program" below.*

In February 2020, we issued $500 million of 1.70% senior notes due February 1, 2023 ("2023 Notes"), $500 million of 1.90% senior notes due February 1, 2025 ("1.90% 2025 Notes"), $850 million of 2.15% senior notes due February 1, 2027 ("2027 Notes") and $1.30 billion of 2.30% senior notes due February 1, 2030 ("2030 Notes"). We used the proceeds to repay the Term Loan and 2020 Notes concurrently. *See Note 15 of our notes to condensed consolidated financial statements for information regarding our debt refinancing.*

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

Other Liquidity and Capital Resources Considerations

Our existing cash, cash equivalents and investment balances may fluctuate during fiscal 2020 due to changes in our planned cash outlay.

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”. While the pandemic has not negatively impacted our liquidity and capital resources to date, it has led to increased disruption and volatility in capital markets and credit markets which could adversely affect our liquidity and capital resources in the future. However, based on our current business plan and revenue prospects, we believe that our existing cash, cash equivalents and investment balances, our anticipated cash flows from operations and our available credit facility will be sufficient to meet our working capital and operating resource expenditure requirements for the next twelve months.

We have a $1 billion senior unsecured revolving credit agreement (“Revolving Credit Agreement”) with a syndicate of lenders, providing for loans to us and certain of our subsidiaries through October 17, 2023. As of August 28, 2020, there were no outstanding borrowings under this Credit Agreement and the entire $1 billion credit line remains available for borrowing.

As of August 28, 2020, we have $4.15 billion senior notes outstanding, consisting of the 2023 Notes, 1.90% 2025 Notes, 2027 Notes, 2030 Notes, and the $1 billion of 3.25% senior notes due February 1, 2025 (“3.25% 2025 Notes,” and together with the aforementioned notes, “Notes”). The Notes rank equally with our other unsecured and unsubordinated indebtedness.

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

Stock Repurchase Program

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

During the nine months ended August 28, 2020 and August 30, 2019, we entered into several structured stock repurchase agreements with large financial institutions, whereupon we provided them with prepayments totaling $2.2 billion and $2 billion, respectively. We enter into these agreements in order to take advantage of repurchasing shares at a guaranteed discount to the Volume Weighted Average Price (“VWAP”) of our common stock over a specified period of time. We only enter into such transactions when the discount that we receive is higher than the expected foregone return on our cash prepayments to the financial institutions. There were no explicit commissions or fees on these structured repurchases. Under the terms of the agreements, there is no requirement for the financial institutions to return any portion of the prepayment to us.

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

During the nine months ended August 28, 2020, we repurchased approximately 6.5 million shares at an average price of $350.72 through structured repurchase agreements entered into during fiscal 2019 and the nine months ended August 28, 2020. During the nine months ended August 30, 2019, we repurchased approximately 7.1 million shares at an average price of $266.96 through structured repurchase agreements entered into during fiscal 2018 and the nine months ended August 30, 2019.

For the nine months ended August 28, 2020, 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 August 28, 2020 were excluded from the computation of earnings per share. As of August 28, 2020, $167 million of prepayment remained under this agreement.

Subsequent to August 28, 2020, 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 $850 million. Upon completion of the $850 million stock repurchase agreement, $2.05 billion remains under our May 2018 authority.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Our principal commitments as of August 28, 2020 consist of our Notes and obligations under operating leases, royalty agreements and various service agreements. Except as discussed below, there have been no other material changes in those obligations during the nine months ended August 28, 2020. *See Notes 14, 15 and 16 of our notes to condensed consolidated financial statements for more detailed information regarding our contractual commitments.*

Contractual Obligations

In February 2020, we issued the 2023 Notes, 1.90% 2025 Notes, 2027 Notes, and 2030 Notes. Concurrently, we settled our outstanding Term Loan and the 2020 Notes. The following table updates our Notes obligations as of August 28, 2020:

(in millions)	**Payment Due by Period**				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Notes, including interest	$ 4,763	$ 99	$ 693	$ 1,659	$ 2,312

As of August 28, 2020, the carrying value of our Notes was $4.12 billion. Interest is payable semi-annually, in arrears on February 1 and August 1. At August 28, 2020, our maximum commitment for interest payments was $613 million for the remaining duration of our outstanding Notes.

Covenants

Our Revolving Credit Agreement contains a financial covenant requiring us not to exceed a maximum leverage ratio. As of August 28, 2020, we were in compliance with this covenant. We believe this covenant will not impact our credit or cash in the coming fiscal year or restrict our ability to execute our business plan. Our 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 August 28, 2020 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 made after December 31, 2017, including certain earnings that were not subject to the one-time transition or global intangible low-tax income tax. As we repatriate the undistributed foreign earnings for use in the U.S., the distributions will generally not be subject to further U.S. federal tax.

Accounting for Uncertainty in Income Taxes

See Results of Operations, Provision for (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 nine months ended August 28, 2020, as compared to those discussed in our Annual Report on Form 10-K for the fiscal year ended November 29, 2019.

ITEM 4. CONTROLS AND PROCEDURES

Based on their evaluation as of August 28, 2020, 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.

Beginning in March 2020, our employees across all geographic regions have shifted to working from home due to the pandemic. We have performed an evaluation of our control environment, operating procedures, data and internal controls and determined that the design of our processes and controls have continued to operate effectively throughout this shift to a work-from-home environment.

There were no changes in our internal control over financial reporting during the quarter ended August 28, 2020 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 14 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.

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 Adobe offices globally 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 personnel to health risks 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 all of our in-person customer events through June 2021 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.

Our operations have also begun to be 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, the extent and effectiveness of containment actions 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 filing.

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.

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.

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

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

Transferring personal information across international borders is becoming increasingly complex. For example, European data transfers outside the European Economic Area are highly regulated. The mechanisms that we and many other companies rely upon for European data transfers (e.g., Privacy Shield and Model Clauses) are the subject of recent judicial decisions in the European court system. We are closely monitoring this and other developments related to requirements for transferring personal data outside the European Union and other countries that have similar trans-border data flow requirements, and adjusting our practices accordingly. These new requirements 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, 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.

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

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

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

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

We spend substantial time and expense on our sales efforts without assurance that potential customers will ultimately purchase our solutions. 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 42% of our total revenue from sales to customers outside of the Americas, we are subject to a number of risks, including:

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

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

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

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

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

As our business has grown, we have become increasingly subject to the risks arising from adverse changes in economic and political conditions, both domestically and globally, including trends toward protectionism and nationalism 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.

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. A significant portion of our foreign earnings for the current fiscal year were earned by our Irish subsidiaries. The U.S. Tax Cuts and Jobs Act ("Tax Act"), enacted into law on December 22, 2017, changed existing U.S. tax law applicable to us and included certain international provisions effective for us starting in fiscal 2019. The applicability and impact of these new tax provisions, and of other international tax law changes, will likely require us to respond by making change(s) to our international trading structure. The net impact of such change(s) is uncertain but is anticipated to adversely affect our effective income tax rate and cash flows in years beyond fiscal 2020. *See the section titled "Provision for (Benefit from) Income Taxes" within Part I. Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations.*

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, by changes in our repatriation policy, by changes in or our interpretation of tax rules and regulations in the jurisdictions in which we do business, by unanticipated decreases in the amount of earnings in countries with low statutory tax rates, by unexpected negative changes in business and market conditions that could reduce certain tax benefits, or by changes in the valuation of our deferred tax assets and liabilities.

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

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

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

We believe that our brands have significantly contributed to the success of our business. Maintaining and enhancing the brands within Adobe increases our ability to enter new categories and launch new and innovative products that better serve the needs of our customers. We also believe that maintaining and enhancing our brands is critical to expanding our base of customers. Our brands may be negatively affected by the use of our products or services to create or disseminate newsworthy content that is deemed to be misleading, deceptive, or intended to manipulate public opinion (e.g. “DeepFakes”), by the use of our products or services for illicit, objectionable, or illegal ends, or by our failure to respond appropriately and expeditiously to such uses of our products and services. Such uses of our products and services may also cause us to face claims related to defamation, rights of publicity and privacy, illegal content, misinformation and personal injury torts. Maintaining and enhancing our brands may require us to make substantial investments and these investments may not be successful. If we fail to appropriately respond to objectionable content created using our products or services or shared on our platforms, our users may lose confidence in our brands and our business and financial results may be adversely affected.

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

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

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

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

If unauthorized disclosure of our source code occurs through security breach, cyber-attack or otherwise, we could lose future trade secret protection for that source code. The loss of future trade secret protection could make it easier for third parties to compete with our products by copying functionality, which could cause us to lose customers and could adversely affect our revenue and operating margins. We also seek to protect our confidential information and trade secrets through the use of non-disclosure agreements with our customers, contractors, vendors and partners. However, there is a risk that our confidential information and trade secrets may be disclosed or published without our authorization, and in these situations, enforcing our rights may be difficult or costly.

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

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

We may incur losses associated with currency fluctuations and may not be able to effectively hedge our exposure.

Our operating results are subject to fluctuations in foreign currency exchange rates due to the global scope of our business. Global economic events, including trade disputes, economic sanctions and emerging market volatility, and associated uncertainty may cause currencies to fluctuate, 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.

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

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

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

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

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

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

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

If we are unable to recruit and retain key personnel, our business may be harmed.

Much of our future success depends on the continued service, availability and performance of our senior management. These individuals have acquired specialized knowledge and skills with respect to Adobe. The loss of any of these individuals could harm our business, especially if we have not been successful in developing adequate succession plans. Our business is also dependent on our ability to retain, hire and motivate talented, highly skilled personnel across all levels of our organization. Our efforts to attract, develop, integrate and retain highly skilled employees with appropriate qualifications may be compounded by intensified restrictions on travel (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.

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 flow from operations to service our debt, thereby reducing the amount of expected cash flow available for other purposes, including capital expenditures and acquisitions; and
- limiting our flexibility in planning for, or reacting to, changes in our business and our industry.

Our senior unsecured notes and senior unsecured credit agreement imposes 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.

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.

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

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

Our cash equivalent and short-term investment portfolio as of August 28, 2020 consisted of asset-backed securities, corporate debt securities, money market mutual funds, municipal 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 August 28, 2020, 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 August 28, 2020. *See Note 12 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]				$ 3,684
May 30, 2020—June 26, 2020				
Shares repurchased	0.7	$ 384.78	0.7	$ (284)
June 27, 2020 —July 24, 2020				
Shares repurchased	0.4	$ 433.97	0.4	$ (167) [2]
July 25, 2020—August 28, 2020				
Shares repurchased	0.4	$ 440.77	0.4	$ (167) [2]
Total	1.5		1.5	$ 3,066

(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 June 2020 we entered into a structured stock repurchase agreement with a large financial institution whereupon we provided them with a prepayment of $500 million. As of August 28, 2020, approximately $167 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

		Incorporated by Reference				
Exhibit Number	Exhibit Description	Form	Filing Date	Exhibit Number	SEC File No.	Filed Herewith
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	
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: September 23, 2020

SUMMARY OF TRADEMARKS

The following trademarks of Adobe Inc. or its subsidiaries, which may be registered in the United States and/or other countries, are referenced in this Form 10-Q:

Adobe
Acrobat
Allegorithmic
Behance
Creative Cloud
Magento
Marketo
Reader

All other trademarks are the property of their respective owners.