ADOBE SYSTEMS INC
Form 10-Q
March 29, 2017

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

FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 3, 2017

or
o 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 SYSTEMS INCORPORATED
(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)

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 x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller	Smaller reporting company o

reporting company)

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

The number of shares outstanding of the registrant's common stock as of March 24, 2017 was 494,697,996.

ADOBE SYSTEMS INCORPORATED
FORM 10-Q

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PART I—FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ADOBE SYSTEMS INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)

	March 3, 2017 (Unaudited)	December 2, 2016 (*)
ASSETS		
Current assets:		
Cash and cash equivalents	$1,068,896	$1,011,315
Short-term investments	3,578,721	3,749,985
Trade receivables, net of allowances for doubtful accounts of $8,265 and $6,214, respectively	850,840	833,033
Prepaid expenses and other current assets	257,105	245,441
Total current assets	5,755,562	5,839,774
Property and equipment, net	821,730	816,264
Goodwill	5,753,575	5,406,474
Purchased and other intangibles, net	489,202	414,405
Investment in lease receivable	80,439	80,439
Other assets	144,275	139,890
Total assets	$13,044,783	$12,697,246
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables	$191,484	$88,024
Accrued expenses	763,012	739,630
Income taxes payable	11,565	38,362
Deferred revenue	1,988,008	1,945,619
Total current liabilities	2,954,069	2,811,635
Long-term liabilities:		
Debt	1,884,074	1,892,200
Deferred revenue	72,238	69,131
Income taxes payable	148,796	184,381
Deferred income taxes	286,407	217,660
Other liabilities	110,509	97,404
Total liabilities	5,456,093	5,272,411
Stockholders' equity:		
Preferred stock, $0.0001 par value; 2,000 shares authorized, none issued	—	—
Common stock, $0.0001 par value; 900,000 shares authorized; 600,834 shares issued; 495,130 and 494,254 shares outstanding, respectively	61	61
Additional paid-in-capital	4,719,966	4,616,331
Retained earnings	8,299,362	8,114,517
Accumulated other comprehensive income (loss)	(185,409)	(173,602)
Treasury stock, at cost (105,704 and 106,580 shares, respectively), net of reissuances	(5,245,290)	(5,132,472)
Total stockholders' equity	7,588,690	7,424,835
Total liabilities and stockholders' equity	$13,044,783	$12,697,246

(*) The condensed consolidated balance sheet as of December 2, 2016 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.

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ADOBE SYSTEMS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(Unaudited)

	Three Months Ended	
	March 3, 2017	March 4, 2016
Revenue:		
Subscription	$1,383,856	$1,070,250
Product	183,385	201,112
Services and support	114,405	111,973
Total revenue	1,681,646	1,383,335
Cost of revenue:		
Subscription	141,181	107,275
Product	14,333	20,299
Services and support	81,823	70,998
Total cost of revenue	237,337	198,572
Gross profit	1,444,309	1,184,763
Operating expenses:		
Research and development	285,077	237,204
Sales and marketing	520,297	474,891
General and administrative	150,808	146,516
Amortization of purchased intangibles	19,128	18,394
Total operating expenses	975,310	877,005
Operating income	468,999	307,758
Non-operating income (expense):		
Interest and other income (expense), net	7,206	4,187
Interest expense	(18,130)	(18,469)
Investment gains (losses), net	2,557	(1,169)
Total non-operating income (expense), net	(8,367)	(15,451)
Income before income taxes	460,632	292,307
Provision for income taxes	62,186	38,000
Net income	$398,446	$254,307
Basic net income per share	$0.81	$0.51
Shares used to compute basic net income per share	494,612	499,125
Diluted net income per share	$0.80	$0.50
Shares used to compute diluted net income per share	500,861	505,676

See accompanying notes to condensed consolidated financial statements.

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ADOBE SYSTEMS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three Months Ended	
	March 3, 2017	March 4, 2016
	Increase/(Decrease)	
Net income	$398,446	$254,307
Other comprehensive income (loss), net of taxes:		
Available-for-sale securities:		
Unrealized gains / losses on available-for-sale securities	1,024	(1,627)
Reclassification adjustment for recognized gains / losses on available-for-sale securities	(160)	(44)
Net increase (decrease) from available-for-sale securities	864	(1,671)
Derivatives designated as hedging instruments:		
Unrealized gains / losses on derivative instruments	6,709	(1,711)
Reclassification adjustment for recognized gains / losses on derivative instruments	(18,184)	(2,935)
Net increase (decrease) from derivatives designated as hedging instruments	(11,475)	(4,646)
Foreign currency translation adjustments	(1,196)	23,718
Other comprehensive income (loss), net of taxes	(11,807)	17,401
Total comprehensive income, net of taxes	$386,639	$271,708

See accompanying notes to condensed consolidated financial statements.

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ADOBE SYSTEMS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended	
	March 3, 2017	March 4, 2016
Cash flows from operating activities:		
Net income	$398,446	$254,307
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	80,809	81,200
Stock-based compensation	98,310	92,310
Deferred income taxes	60,315	56,906
Unrealized losses (gains) on investments, net	(1,021)	2,047
Excess tax benefits from stock-based compensation	—	(14,859)
Other non-cash items	115	(1,420)
Changes in operating assets and liabilities, net of acquired assets and assumed liabilities:		
Trade receivables, net	184,250	74,274
Prepaid expenses and other current assets	(10,758)	(84,832)
Trade payables	32,816	(21,601)
Accrued expenses	(92,105)	(81,111)
Income taxes payable	(61,639)	16,940
Deferred revenue	40,832	123,366
Net cash provided by operating activities	730,370	497,527
Cash flows from investing activities:		
Purchases of short-term investments	(476,014)	(534,310)
Maturities of short-term investments	219,091	178,939
Proceeds from sales of short-term investments	426,243	194,515
Acquisitions, net of cash acquired	(459,626)	—
Purchases of property and equipment	(30,903)	(46,200)
Purchases of long-term investments and other assets	(18,218)	(51,892)
Proceeds from sale of long-term investments	545	106
Net cash used for investing activities	(338,882)	(258,842)
Cash flows from financing activities:		
Purchases of treasury stock	(200,000)	(150,000)
Proceeds from issuance of treasury stock	51,787	45,544
Taxes paid related to net share settlement of equity awards	(183,014)	(194,795)
Excess tax benefits from stock-based compensation	—	14,859
Repayment of capital lease obligations	(268)	—
Net cash used for financing activities	(331,495)	(284,392)
Effect of foreign currency exchange rates on cash and cash equivalents	(2,412)	(157)
Net increase (decrease) in cash and cash equivalents	57,581	(45,864)
Cash and cash equivalents at beginning of period	1,011,315	876,560
Cash and cash equivalents at end of period	$1,068,896	$830,696
Supplemental disclosures:		
Cash paid for income taxes, net of refunds	$27,254	$15,973
Cash paid for interest	$24,888	$26,077
Non-cash investing activities:		
Issuance of common stock and stock awards assumed in business acquisitions	$10,348	$—

See accompanying notes to condensed consolidated financial statements.

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ADOBE SYSTEMS INCORPORATED
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 (the "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 December 2, 2016 on file with the SEC (our "Annual Report").

Reclassifications

Certain immaterial prior year amounts have been reclassified to conform to current year presentation in the condensed consolidated balance sheets, condensed consolidated statements of income and condensed consolidated statements of cash flows.

Recently Adopted Accounting Guidance

On March 30, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies various aspects related to the accounting and presentation of share-based payments. The amendments require entities to record all tax effects related to share-based payments at settlement or expiration through the income statement and the windfall tax benefit to be recorded when it arises, subject to normal valuation allowance considerations. Tax-related cash flows resulting from share-based payments are required to be reported as operating activities in the statement of cash flows. The updates relating to the income tax effects of the share-based payments including the cash flow presentation must be adopted either prospectively or retrospectively. Further, the amendments allow the entities to make an accounting policy election to either estimate forfeitures or recognize forfeitures as they occur. If an election is made, the change to recognize forfeitures as they occur must be adopted using a modified retrospective approach with a cumulative effect adjustment recorded to opening retained earnings. The effective date of the new standard for public companies is for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. Early adoption is permitted.

We early adopted this standard during the first quarter of fiscal 2017. As required by the standard, excess tax benefits recognized on stock-based compensation expense were reflected in our condensed consolidated statements of income as a component of the provision for income taxes rather than paid-in capital on a prospective basis. Accordingly, we recorded excess tax benefits within our provision for income taxes, rather than additional paid-in capital, during the three months ended March 3, 2017. The cumulative effect to retained earnings from previously unrecognized excess tax benefits, after offset by the related valuation allowance, was not significant to our condensed consolidated balance sheets.

We also elected to prospectively apply the change in presentation of excess tax benefits wherein excess tax benefits recognized on stock-based compensation expense were classified as operating activities in our condensed consolidated statements of cash flows for the three months ended March 3, 2017. Prior period classification of cash flows related to excess tax benefits were not adjusted in our condensed consolidated statements of cash flows.

Presentation requirements for cash flows related to employee taxes paid for withheld shares had no impact to all periods presented as such cash flows have historically been presented as financing activities. Further, we did not elect an accounting policy change to record forfeitures as they occur and thus we continue to estimate forfeitures at each period.

Significant Accounting Policies

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

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ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Recent Accounting Pronouncements Not Yet Effective

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, which deferred the effective date of the new revenue standard for periods beginning after December 15, 2016 to December 15, 2017, with early adoption permitted but not earlier than the original effective date. Accordingly, the updated standard is effective for us in the first quarter of fiscal 2019 and we do not plan to early adopt. We have not yet selected a transition method and we are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

While we are continuing to assess all potential impacts of the new standard, we currently believe the most significant impact relates to our accounting for arrangements that include term-based software licenses bundled with maintenance and support. Under current GAAP, the revenue attributable to these software licenses is recognized ratably over the term of the arrangement because VSOE does not exist for the undelivered maintenance and support element as it is not sold separately. The requirement to have VSOE for undelivered elements to enable the separation of revenue for the delivered software licenses is eliminated under the new standard. Accordingly, under the new standard we will be required to recognize as revenue a portion of the arrangement fee upon delivery of the software license. While we currently expect revenue related to our professional services and cloud offerings for business enterprises, individuals and teams to remain substantially unchanged, we are still in the process of evaluating the impact of the new standard on these arrangements. Due to the complexity of certain of our contracts, the actual revenue recognition treatment required under the new standard for these arrangements may be dependent on contract-specific terms and, therefore, may vary in some instances.

On February 24, 2016, the FASB issued ASU No. 2016-02, Leases, requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. For lessees, leases will continue to be classified as either operating or finance leases in the income statement. Lessor accounting is similar to the current model but updated to align with certain changes to the lessee model. Lessors will continue to classify leases as operating, direct financing or sales-type leases. The effective date of the new standard for public companies is for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition and requires application of the new guidance at the beginning of the earliest comparative period presented. The updated standard is effective for us beginning in the first quarter of fiscal 2020 and we do not plan to early adopt. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

With the exception of the new standards discussed above, there have been no other recent accounting pronouncements or changes in accounting pronouncements during the three months ended March 3, 2017, as compared to the recent accounting pronouncements described in our Annual Report on Form 10-K for the fiscal year ended December 2, 2016, that are of significance or potential significance to us.

NOTE 2. ACQUISITIONS

On December 19, 2016, we completed our acquisition of TubeMogul, a publicly held video advertising platform company. During the first quarter of fiscal 2017, we began integrating TubeMogul into our Digital Marketing reportable segment.

Under the acquisition method of accounting, the total purchase price was preliminarily allocated to TubeMogul’s net tangible and intangible assets based upon their estimated fair values as of December 19, 2016. The total purchase

price for TubeMogul was $560.8 million which was preliminarily allocated to goodwill that is non-deductible for tax purposes for $349.4 million, to identifiable intangible assets for $113.1 million and to net assets acquired for $98.3 million. The fair values assigned to assets acquired and liabilities assumed are based on management's best estimates and assumptions as of the reporting date and are considered preliminary pending finalization of valuation analyses pertaining to intangible assets acquired and tax liabilities assumed including calculation of deferred tax assets and liabilities.

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

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ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 3. CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Cash equivalents consist of instruments with remaining maturities of three months or less at the date of purchase. We classify all of our cash equivalents and short-term investments as "available-for-sale." In general, these investments are free of trading restrictions. 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 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. Gains and losses are determined using the specific identification method.

Cash, cash equivalents and short-term investments consisted of the following as of March 3, 2017 (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	$284,102	$ —	$—	$284,102
Cash equivalents:				
Corporate bonds and commercial paper	1,030	—	—	1,030
Money market mutual funds	762,830	—	—	762,830
Time deposits	20,934	—	—	20,934
Total cash equivalents	784,794	—	—	784,794
Total cash and cash equivalents	1,068,896	—	—	1,068,896
Short-term fixed income securities:				
Asset-backed securities	111,952	8	(437)	111,523
Corporate bonds and commercial paper	2,394,514	3,755	(8,440)	2,389,829
Municipal securities	137,243	62	(198)	137,107
U.S. agency securities	28,541	15	—	28,556
U.S. Treasury securities	913,704	55	(2,053)	911,706
Total short-term investments	3,585,954	3,895	(11,128)	3,578,721
Total cash, cash equivalents and short-term investments	$4,654,850	$ 3,895	$(11,128)	$4,647,617

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ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Cash, cash equivalents and short-term investments consisted of the following as of December 2, 2016 (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	$208,635	$ —	$—	$208,635
Cash equivalents:				
Corporate bonds and commercial paper	1,249	—	—	1,249
Money market mutual funds	782,210	—	—	782,210
Municipal securities	1,301	—	—	1,301
Time deposits	17,920	—	—	17,920
Total cash equivalents	802,680	—	—	802,680
Total cash and cash equivalents	1,011,315	—	—	1,011,315
Short-term fixed income securities:				
Asset-backed securities	111,009	95	(190)	110,914
Corporate bonds and commercial paper	2,464,769	3,135	(9,554)	2,458,350
Municipal securities	134,710	37	(525)	134,222
U.S. agency securities	39,538	42	—	39,580
U.S. Treasury securities	1,008,195	194	(1,470)	1,006,919
Total short-term investments	3,758,221	3,503	(11,739)	3,749,985
Total cash, cash equivalents and short-term investments	$4,769,536	$ 3,503	$(11,739)	$4,761,300

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

The following table summarizes the fair value and gross unrealized losses related to available-for-sale securities, aggregated by investment category, that have been in an unrealized loss position for less than twelve months, as of March 3, 2017 and December 2, 2016 (in thousands):

	2017		2016	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate bonds and commercial paper	$1,228,225	$(8,420)	$1,282,076	$(9,474)
Asset-backed securities	99,481	(436)	54,063	(189)
Municipal securities	58,653	(198)	114,810	(525)
U.S. Treasury and agency securities	812,832	(2,053)	580,529	(1,470)
Total	$2,199,191	$(11,107)	$2,031,478	$(11,658)

There were 1,019 securities and 1,052 securities in an unrealized loss position for less than twelve months at March 3, 2017 and at December 2, 2016, respectively.

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ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table summarizes the fair value and gross unrealized losses related to available-for-sale securities, aggregated by investment category, that were in a continuous unrealized loss position for more than twelve months, as of March 3, 2017 and December 2, 2016 (in thousands):

	2017		2016	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate bonds and commercial paper	$16,445	$ (20)	$39,162	$ (80)
Asset-backed securities	510	(1)	1,331	(1)
Total	$16,955	$ (21)	$40,493	$ (81)

There were 12 securities and 23 securities in an unrealized loss position for more than twelve months at March 3, 2017 and at December 2, 2016, respectively.

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 March 3, 2017 (in thousands):

	Amortized Cost	Estimated Fair Value
Due within one year	$1,072,212	$1,072,109
Due between one and two years	1,332,306	1,330,659
Due between two and three years	771,270	767,999
Due after three years	410,166	407,954
Total	$3,585,954	$3,578,721

We review our debt and marketable equity 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. For debt securities, the portion of the write-down related to credit loss would be recorded to interest and other income, 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. For equity securities, the write-down would be recorded to investment gains (losses), net in our condensed consolidated statements of income. During the three months ended March 3, 2017 and March 4, 2016, we did not consider any of our investments to be other-than-temporarily impaired.

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ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 4. 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 three months ended March 3, 2017.

The fair value of our financial assets and liabilities at March 3, 2017 was determined using the following inputs (in thousands):

	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 bonds and commercial paper	$1,030	$—	$1,030	$ —
Money market mutual funds	762,830	762,830	—	—
Time deposits	20,934	20,934	—	—
Short-term investments:				
Asset-backed securities	111,523	—	111,523	—
Corporate bonds and commercial paper	2,389,829	—	2,389,829	—
Municipal securities	137,107	—	137,107	—
U.S. agency securities	28,556	—	28,556	—
U.S. Treasury securities	911,706	—	911,706	—
Prepaid expenses and other current assets:				
Foreign currency derivatives	26,962	—	26,962	—
Other assets:				
Deferred compensation plan assets	48,892	1,698	47,194	—
Interest rate swap derivatives	4,104	—	4,104	—
Total assets	$4,443,473	$785,462	$3,658,011	$ —
Liabilities:				
Accrued expenses:				
Foreign currency derivatives	$1,585	$—	$1,585	$—
Total liabilities	$1,585	$—	$1,585	$—

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ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The fair value of our financial assets and liabilities at December 2, 2016 was determined using the following inputs (in thousands):

	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 bonds and commercial paper	$1,249	$—	$1,249	$—
Money market mutual funds	782,210	782,210	—	—
Municipal securities	1,301	—	1,301	—
Time deposits	17,920	17,920	—	—
Short-term investments:				
Asset-backed securities	110,914	—	110,914	—
Corporate bonds and commercial paper	2,458,350	—	2,458,350	—
Municipal securities	134,222	—	134,222	—
U.S. agency securities	39,580	—	39,580	—
U.S. Treasury securities	1,006,919	—	1,006,919	—
Prepaid expenses and other current assets:				
Foreign currency derivatives	38,112	—	38,112	—
Other assets:				
Deferred compensation plan assets	42,180	1,831	40,349	—
Interest rate swap derivatives	13,117	—	13,117	—
Total assets	$4,646,074	$801,961	$3,844,113	$—
Liabilities:				
Accrued expenses:				
Foreign currency derivatives	$5,246	$—	$5,246	$—
Total liabilities	$5,246	$—	$5,246	$—

See Note 3 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 minimum credit rating of BBB- and 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.

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

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

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

We also have direct investments in privately held companies accounted for under the cost method, which are periodically assessed for other-than-temporary impairment. If we determine that an other-than-temporary impairment has occurred, we write down the investment to its fair value. We estimate fair value of our cost method investments considering available information such as pricing in recent rounds of financing, current cash positions, earnings and cash flow forecasts, recent operational performance and any other readily available market data. For the three months ended March 3, 2017, we determined there were no other-than-temporary impairments on our cost method investments. For the three months ended March 4, 2016, we determined there were immaterial other-than-temporary impairments on certain of our cost method investments and wrote down the investments to fair value.

As of March 3, 2017, the carrying value of our lease receivables approximated fair value, based on Level 2 valuation inputs which include Treasury rates, London Interbank Offered Rate (“LIBOR”) interest rates and applicable credit spreads. See Note 11 for further details regarding our investment in lease receivable.

The fair value of our senior notes was $1.98 billion as of March 3, 2017, based on observable market prices in less active markets and categorized as Level 2. See Note 12 for further details regarding our debt.

NOTE 5. DERIVATIVES AND HEDGING ACTIVITIES

Hedge Accounting and Hedging Programs

We recognize all derivative instruments as either assets or liabilities on our condensed consolidated balance sheets and measure them at fair value. Gains and losses resulting from changes in fair value are accounted for depending on the use of the derivative and whether it is designated and qualifies for hedge accounting.

We evaluate hedge effectiveness at the inception of the hedge prospectively as well as retrospectively, and record any ineffective portion of the hedging instruments in interest and other income (expense), net in our condensed consolidated statements of income. The time value of purchased contracts is recorded in interest and other income (expense), net in our condensed consolidated statements of income.

The bank counterparties to these contracts expose us to credit-related losses in the event of their nonperformance which are largely mitigated with collateral security agreements that provide for collateral to be received or posted when the net fair value of certain financial instruments fluctuates from contractually established thresholds. In addition, the Company enters into master netting arrangements which have the ability to further limit credit-related losses with the same counterparty by permitting net settlement of transactions. Our hedging policy also establishes maximum limits for each counterparty to mitigate any concentration of risk.

Balance Sheet Hedging—Hedges of Foreign Currency Assets and Liabilities

We hedge our net recognized foreign currency denominated assets and liabilities with foreign exchange forward contracts to reduce the risk that the value of these assets and liabilities will be adversely affected by changes in exchange rates. These contracts hedge assets and liabilities that are denominated in foreign currencies and are carried at fair value with changes in the fair value recorded to interest and other income (expense), net in our condensed consolidated statements of income. These contracts do not subject us to material balance sheet risk due to exchange rate movements because gains and losses on these derivatives are intended to offset gains and losses on the assets and

liabilities being hedged.

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Cash Flow Hedging—Hedges of Forecasted Foreign Currency Revenue and Interest Rate Risk

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 certain cash flow exposures resulting from changes in these foreign currency exchange rates. These foreign exchange contracts, carried at fair value, have maturities of up to twelve months. We enter into these foreign exchange contracts to hedge a portion of our forecasted foreign currency denominated revenue in the normal course of business and accordingly, they are not speculative in nature.

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 the intrinsic value of these cash flow hedges in accumulated other comprehensive income (loss) on our condensed consolidated balance sheets, until the forecasted transaction occurs. When the forecasted transaction occurs, we reclassify the related gain or loss on the cash flow hedge to revenue. In the event the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, we reclassify the gain or loss on the related cash flow hedge from accumulated other comprehensive income (loss) to interest and other income (expense), net in our condensed consolidated statements of income at that time. 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 interest and other income (expense), net in our condensed consolidated statements of income.

Fair Value Hedging - Hedges of Interest Rate Risk

During the third quarter of fiscal 2014, we entered into interest rate swaps designated as fair value hedges related to our $900 million of 4.75% fixed interest rate senior notes due February 1, 2020. In effect, the interest rate swaps convert the fixed interest rate on these senior notes to a floating interest rate based on LIBOR. Under the terms of the swaps, we will pay monthly interest at the one-month LIBOR interest rate plus a fixed number of basis points on the $900 million notional amount through February 1, 2020. In exchange, we will receive 4.75% fixed rate interest from the swap counterparties. See Note 12 for further details regarding our debt.

The interest rate swaps are accounted for as fair value hedges and substantially offset the changes in fair value of the hedged portion of the underlying debt that are attributable to the changes in market risk. Therefore, the gains and losses related to changes in the fair value of the interest rate swaps are included in interest and other income (expense), net in our condensed consolidated statement of income. The fair value of the interest rate swaps is reflected as either an asset or liability on our condensed consolidated balance sheets.

The fair value of derivative instruments on our condensed consolidated balance sheets as of March 3, 2017 and December 2, 2016 were as follows (in thousands):

	2017 Fair Value Asset Derivatives	2017 Fair Value Liability Derivatives	2016 Fair Value Asset Derivatives	2016 Fair Value Liability Derivatives
Derivatives designated as hedging instruments:				
Foreign exchange option contracts[1] [3]	$25,140	$ —	$34,355	$ —
Interest rate swap [2]	4,104	—	13,117	—

Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts [1]	1,822	1,585	3,757	5,246
Total derivatives	$31,066	$ 1,585	$51,229	$ 5,246

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(1) Included in prepaid expenses and other current assets and accrued expenses for asset derivatives and liability derivatives, respectively, on our condensed consolidated balance sheets.

(2) Included in other assets or other liabilities on our condensed consolidated balance sheets.

(3) Hedging effectiveness expected to be recognized into income within the next twelve months.

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The effect of foreign currency derivative instruments designated as cash flow hedges and of foreign currency derivative instruments not designated as hedges in our condensed consolidated statements of income for the three months ended March 3, 2017 and March 4, 2016 was as follows (in thousands):

	2017		2016	
	Foreign Exchange Option Contracts	Foreign Exchange Forward Contracts	Foreign Exchange Option Contracts	Foreign Exchange Forward Contracts
Derivatives in cash flow hedging relationships:				
Net gain (loss) recognized in OCI, net of tax[1]	$6,709	$ —	$(1,711)	$ —
Net gain (loss) reclassified from accumulated OCI into income, net of tax[2]	$18,309	$ —	$3,220	$ —
Net gain (loss) recognized in income[3]	$(6,037)	$ —	$(5,140)	$ —
Derivatives not designated as hedging relationships:				
Net gain (loss) recognized in income[4]	$—	$ 1,088	$—	$ (965)

(1) Net change in the fair value of the effective portion classified in other comprehensive income ("OCI").
(2) Effective portion classified as revenue.
(3) Ineffective portion and amount excluded from effectiveness testing classified in interest and other income (expense), net.
(4) Classified in interest and other income (expense), net.

NOTE 6. GOODWILL AND PURCHASED AND OTHER INTANGIBLES

Goodwill as of March 3, 2017 and December 2, 2016 was $5.75 billion and $5.41 billion, respectively. The increase was due to our acquisition of TubeMogul, offset in part by foreign currency translation adjustments.

Purchased and other intangible assets subject to amortization as of March 3, 2017 and December 2, 2016 were as follows (in thousands):

	2017			2016		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Purchased technology	$233,280	$ (92,233)	$141,047	$149,253	$ (82,091)	$67,162
Customer contracts and relationships	$568,859	$ (293,595)	$275,264	$541,366	$ (274,380)	$266,986
Trademarks	76,355	(49,305)	27,050	76,355	(46,846)	29,509
Acquired rights to use technology	72,672	(48,635)	24,037	87,403	(60,929)	26,474
Localization	683	(361)	322	631	(177)	454
Other intangibles	38,693	(17,211)	21,482	38,693	(14,873)	23,820
Total other intangible assets	$757,262	$ (409,107)	$348,155	$744,448	$ (397,205)	$347,243
Purchased and other intangible assets, net	$990,542	$ (501,340)	$489,202	$893,701	$ (479,296)	$414,405

Amortization expense related to purchased and other intangible assets was $38.1 million and $37.6 million for the three months ended March 3, 2017 and March 4, 2016, respectively. Of these amounts $18.7 million and 19.0 million were included in cost of sales for the three months ended March 3, 2017 and March 4, 2016, respectively.

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(Unaudited)

As of March 3, 2017, we expect amortization expense in future periods to be as follows (in thousands):

Fiscal Year	Purchased Technology	Other Intangible Assets
Remainder of 2017	$ 33,543	$ 82,632
2018	37,851	95,004
2019	32,615	68,152
2020	30,405	39,046
2021	5,819	16,741
Thereafter	814	46,580
Total expected amortization expense	$ 141,047	$ 348,155

NOTE 7. ACCRUED EXPENSES

Accrued expenses as of March 3, 2017 and December 2, 2016 consisted of the following (in thousands):

	2017	2016
Accrued compensation and benefits	$272,303	$339,487
Sales and marketing allowances	126,227	60,825
Accrued corporate marketing	59,050	55,218
Taxes payable	41,106	43,113
Royalties payable	24,221	25,089
Accrued interest expense	7,178	25,805
Other	232,927	190,093
Accrued expenses	$763,012	$739,630

Other primarily includes general corporate accruals including restructuring charges, and local and regional expenses. Other is also comprised of deferred rent related to office locations with rent escalations and foreign currency liability derivatives.

NOTE 8. STOCK-BASED COMPENSATION

Summary of Restricted Stock Units

Restricted stock unit activity for the three months ended March 3, 2017 and the fiscal year ended December 2, 2016 was as follows (in thousands):

	2017	2016
Beginning outstanding balance	8,316	10,069
Awarded	3,909	4,440
Released	(2,787)	(5,471)
Forfeited	(211)	(722)
Increase due to acquisition	595	—
Ending outstanding balance	9,822	8,316

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Information regarding restricted stock units outstanding at March 3, 2017 and March 4, 2016 is summarized below:

	Number of Shares (thousands)	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value(*) (millions)
2017			
Restricted stock units outstanding	9,822	1.59	$ 1,002.3
Restricted stock units vested and expected to vest	8,646	1.53	$ 882.2
2016			
Restricted stock units outstanding	8,851	1.52	$ 762.7
Restricted stock units vested and expected to vest	7,716	1.45	$ 654.2

(*) The intrinsic value is calculated as the market value as of the end of the fiscal period. As reported by the NASDAQ Global Select Market, the market values as of March 3, 2017 and March 4, 2016 were $120.04 and $86.18, respectively.

Summary of Performance Shares

Our 2017, 2016 and 2015 Performance Share Programs aim to help focus key employees on building stockholder value, provide significant award potential for achieving outstanding Company performance and enhance the ability of the Company to attract and retain highly talented and competent individuals. The Executive Compensation Committee of our Board of Directors approves the terms of each of our Performance Share Programs, including the award calculation methodology, under the terms of our 2003 Equity Incentive Plan. Shares may be earned based on the achievement of an objective relative total stockholder return measured over a three-year performance period. Performance share awards will be awarded and fully vest upon the Executive Compensation Committee's certification of the level of achievement following the three-year anniversary of each grant date. Program participants generally have the ability to receive up to 200% of the target number of shares originally granted.

In the first quarter of fiscal 2017, the Executive Compensation Committee approved the 2017 Performance Share Program, the terms of which are similar to prior year performance share programs as discussed above.

In the first quarter of fiscal 2017, the Executive Compensation Committee also certified the actual performance achievement of participants in the 2014 Performance Share Program. Actual performance resulted in participants achieving 198% of target or approximately 1.1 million shares. The shares granted and achieved under the 2014 Performance Share Program fully vested on the three-year anniversary of the grant on January 24, 2017, if not forfeited.

In the first quarter of fiscal 2016, the Executive Compensation Committee certified the actual performance achievement of participants in the 2013 Performance Share Program. Actual performance resulted in participants achieving 198% of target or approximately 1.4 million shares. The shares granted and achieved under the 2013 Performance Share Program fully vested on the three-year anniversary of the grant on January 24, 2016, if not forfeited.

As of March 3, 2017, the shares awarded under our 2017, 2016 and 2015 Performance Share Programs are yet to be achieved.

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(Unaudited)

The following table sets forth the summary of performance share activity under our Performance Share Programs for the three months ended March 3, 2017 and the fiscal year ended December 2, 2016 (in thousands):

	2017		2016	
	Shares Granted	Maximum Shares Eligible to Receive	Shares Granted	Maximum Shares Eligible to Receive
Beginning outstanding balance	1,630	3,261	1,940	3,881
Awarded	1,082 [1]	1,040	1,206 [2]	1,053
Achieved	(1,135)	(1,147)	(1,373)	(1,387)
Forfeited	(37)	(74)	(143)	(286)
Ending outstanding balance	1,540	3,080	1,630	3,261

(1) Included in the 1.1 million shares awarded during the three months ended March 3, 2017 were 0.6 million shares awarded for the final achievement of the 2014 Performance Share program. The remaining awarded shares were for the 2017 Performance Share Program.

(2) Included in the 1.2 million shares awarded during the fiscal year ended December 2, 2016 were 0.7 million shares awarded for the final achievement of the 2013 Performance Share program. The remaining awarded shares were for the 2016 Performance Share Program.

Summary of Employee Stock Purchase Plan Shares

The expected life of the ESPP shares is the average of the remaining purchase periods under each offering period. The assumptions used to value employee stock purchase rights during the three months ended March 3, 2017 and March 4, 2016 were as follows:

	Three Months	
	2017	2016
Expected life (in years)	0.5 - 2.0	0.5 - 2.0
Volatility	22% - 25%	27% - 29%
Risk free interest rate	0.62% - 1.2%	0.49% - 1.06%

Employees purchased 0.7 million shares at an average price of $71.72 and 0.7 million shares at an average price of $58.79 for the three months ended March 3, 2017 and March 4, 2016, respectively. The intrinsic value of shares purchased during the three months ended March 3, 2017 and March 4, 2016 was $20.4 million and $23.7 million, respectively. The intrinsic value is calculated as the difference between the market value on the date of purchase and the purchase price of the shares.

Summary of Stock Options

The Executive Compensation Committee of Adobe’s Board of Directors eliminated the use of stock option grants for all employees and the Board of Directors effective fiscal 2012 and fiscal 2014, respectively. As of March 3, 2017 and December 2, 2016, we had 0.5 million and 0.6 million stock options outstanding, respectively.

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Compensation Costs

As of March 3, 2017, there was $887.4 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock-based awards which will be recognized over a weighted average period of 2.3 years. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

Total stock-based compensation costs included in our condensed consolidated statements of income for the three months ended March 3, 2017 and March 4, 2016 were as follows (in thousands):

Income Statement Classifications	2017 Option Grants and Stock Purchase Rights	2017 Restricted Stock Units and Performance Share Awards	2016 Option Grants and Stock Purchase Rights	2016 Restricted Stock Units and Performance Share Awards
Cost of revenue—subscription	$393	$ 2,161	$373	$ 1,803
Cost of revenue—services and support	1,723	3,065	1,433	1,895
Research and development	4,032	33,094	3,874	29,484
Sales and marketing	4,388	32,465	4,550	29,356
General and administrative	1,230	18,316	1,233	18,747
Total	$11,766	$ 89,101	$11,463	$ 81,285

NOTE 9. STOCKHOLDERS' EQUITY

Retained Earnings

The changes in retained earnings for the three months ended March 3, 2017 were as follows (in thousands):

Balance as of December 2, 2016	$8,114,517
Net income	398,446
Re-issuance of treasury stock	(213,601)
Balance as of March 3, 2017	$8,299,362

We account for treasury stock under the cost method. When treasury stock is re-issued at a price higher than its cost, the difference is recorded as a component of additional paid-in-capital in our condensed consolidated balance sheets. When treasury stock is re-issued at a price lower than its cost, the difference is recorded as a component of additional paid-in-capital to the extent that there are treasury stock gains to offset the losses. If there are no treasury stock gains in additional paid-in-capital, the losses upon re-issuance of treasury stock are recorded as a reduction of retained earnings in our condensed consolidated balance sheets.

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The components of accumulated other comprehensive income (loss) and activity, net of related taxes, as of March 3, 2017 were as follows (in thousands):

	December 2, 2016	Increase / Decrease	Reclassification Adjustments	March 3, 2017
Net unrealized gains on available-for-sale securities:				
Unrealized gains on available-for-sale securities	$3,499	$673	$ (294)	$3,878
Unrealized losses on available-for-sale securities	(11,565)	351	134	(11,080)
Total net unrealized gains on available-for-sale securities	(8,066)	1,024	(160) [1]	(7,202)
Net unrealized gains / losses on derivative instruments designated as hedging instruments	21,689	6,709	(18,184) [2]	10,214
Cumulative foreign currency translation adjustments	(187,225)	(1,196)	—	(188,421)
Total accumulated other comprehensive income (loss), net of taxes	$(173,602)	$6,537	$ (18,344)	$(185,409)

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

(2) Reclassification adjustments for loss on the interest rate lock agreement and gains / losses on other derivative instruments are classified in interest and other income (expense), net and revenue, respectively.

The following table sets forth the taxes related to each component of other comprehensive income for the three months ended March 3, 2017 and March 4, 2016 (in thousands):

	Three Months	
	2017	2016
Available-for-sale securities:		
Unrealized gains / losses	$248	$28
Reclassification adjustments	(109)	—
Subtotal available-for-sale securities	139	28
Derivatives designated as hedging instruments:		
Unrealized gains / losses on derivative instruments[1]	—	—
Reclassification adjustments[1]	(284)	(151)
Subtotal derivatives designated as hedging instruments	(284)	(151)
Foreign currency translation adjustments	386	633
Total taxes, other comprehensive income	$241	$510

(1) Taxes related to derivative instruments other than the interest rate lock agreement were zero based on the tax jurisdiction where these derivative instruments were executed.

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. Our Board of Directors has approved our stock repurchase program wherein we were granted authority to repurchase common stock up to a specified amount and period.

In fiscal 2015, the Board of Directors approved our current stock repurchase authority to repurchase up to $2 billion in common stock through the end of fiscal 2017. Subsequent to March 3, 2017, as part of this $2 billion stock repurchase authority, we entered into a structured stock repurchase agreement with a large financial institution whereupon we provided them with a prepayment of $300 million. This amount will be classified as treasury stock on our condensed consolidated balance sheets. Upon completion of the $300 million stock repurchase agreement, there will be no remaining amount under the $2 billion authority.

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In the first quarter of fiscal 2017, the Board of Directors approved a new stock repurchase authority to repurchase up to $2.5 billion in common stock through the end of fiscal 2019.

During the three months ended March 3, 2017 and March 4, 2016, we entered into several structured stock repurchase agreements with large financial institutions, whereupon we provided them with prepayments totaling $200 million and $150 million, respectively. The prepayment of $200 million during the three months ended March 3, 2017 and the prepayment of $150 million during the three months ended March 4, 2016 were under the $2 billion authority granted in fiscal 2015. We enter into these agreements in order to take advantage of repurchasing shares at a guaranteed discount to the Volume Weighted Average Price ("VWAP") of our common stock over a specified period of time. We only enter into such transactions when the discount that we receive is higher than the foregone return on our cash prepayments to the financial institutions. There were no explicit commissions or fees on these structured repurchases. Under the terms of the agreements, there is no requirement for the financial institutions to return any portion of the prepayment to us.

The financial institutions agree to deliver shares to us at monthly intervals during the contract term. The parameters used to calculate the number of shares deliverable are: the total notional amount of the contract, the number of trading days in the contract, the number of trading days in the interval and the average VWAP of our stock during the interval less the agreed upon discount. During the three months ended March 3, 2017, we repurchased approximately 2.2 million shares at an average price of $107.54 through structured repurchase agreements entered into during fiscal 2016 and the three months ended March 3, 2017. During the three months ended March 4, 2016 we repurchased approximately 1.5 million shares at an average price of $88.67 through structured repurchase agreements entered into during fiscal 2015 and the three months ended March 4, 2016.

For the three months ended March 3, 2017, the prepayments were classified as treasury stock on our condensed consolidated balance sheets at the payment date, though only shares physically delivered to us by March 3, 2017 were excluded from the computation of earnings per share. As of March 3, 2017, $62.5 million of prepayment remained under this agreement.

NOTE 10. NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted net income per share for the three months ended March 3, 2017 and March 4, 2016 (in thousands, except per share data):

	Three Months	
	2017	2016
Net income	$398,446	$254,307
Shares used to compute basic net income per share	494,612	499,125
Dilutive potential common shares:		
Unvested restricted stock units and performance share awards	5,867	5,922
Stock options	382	629
Shares used to compute diluted net income per share	500,861	505,676
Basic net income per share	$0.81	$0.51
Diluted net income per share	$0.80	$0.50

For the three months ended March 3, 2017 and March 4, 2016, there were no options to purchase shares of common stock with exercise prices greater than the average fair market value of our stock of $110.75 and $87.98, respectively that would have been anti-dilutive.

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NOTE 11. COMMITMENTS AND CONTINGENCIES

Lease Commitments

We occupy three office buildings in San Jose, California where our corporate headquarters are located. We reference these office buildings as the Almaden Tower and the East and West Towers. We own the land and the East and West Tower buildings, and lease the Almaden Tower building as of March 3, 2017.

The lease agreement for the Almaden Tower is effective through March 2017. We are the investors in the lease receivable related to the Almaden Tower lease in the amount of $80.4 million, which is recorded as investment in lease receivable on our condensed consolidated balance sheets as of March 3, 2017. The carrying value of the lease receivable related to the Almaden Tower approximated fair value as of March 3, 2017. Under the agreement for the Almaden Tower, we have the option to purchase the building at any time during the lease term for $103.6 million. If we purchase the building, the investment in the lease receivable may be credited against the purchase price. The residual value guarantee under the Almaden Tower obligation is $89.4 million.

Subsequent to March 3, 2017, we exercised our option to purchase the Almaden Tower for a total purchase price of $103.6 million. Upon purchase, our investment in the lease receivable of $80.4 million was credited against the total purchase price. We capitalized the Almaden Tower as property and equipment on our condensed consolidated balance sheets at $104.2 million, the lesser of cost or fair value, which represented the total purchase price plus other direct costs associated with the purchase.

Royalties

We have royalty commitments associated with the shipment and licensing of certain products. 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. 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In addition to intellectual property disputes, we are subject to legal proceedings, claims and investigations in the ordinary course of business, including claims relating to commercial, employment and other matters. Some of these disputes and legal proceedings may include speculative claims for substantial or indeterminate amounts of damages. We consider all claims on a quarterly basis in accordance with GAAP and based on known facts assess whether potential losses are considered reasonably possible, probable and estimable. Based upon this assessment, we then evaluate disclosure requirements and whether to accrue for such claims in our financial statements. This determination is then reviewed and discussed with our Audit Committee and our independent registered public accounting firm.
We make a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Unless otherwise specifically disclosed in this note, we have determined that no provision for liability nor disclosure is required related to any claim against us because: (a) there is not a reasonable possibility that a loss exceeding amounts already recognized (if any) may be incurred with respect to such claim; (b) a reasonably possible loss or range of loss cannot be estimated; or (c) such estimate is immaterial.
All legal costs associated with litigation are expensed as incurred. Litigation is inherently unpredictable. However, we believe that we have valid defenses with respect to the legal matters pending against us. It is possible, nevertheless, that our consolidated financial position, cash flows or results of operations could be negatively affected in any particular period 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 12. DEBT

Notes

In February 2010, we issued $900 million of 4.75% senior notes due February 1, 2020 (the “2020 Notes”). Our proceeds were $900 million and were net of an issuance discount of $5.5 million. In addition, we incurred issuance costs of $6.4 million. Both the discount and issuance costs are being amortized to interest expense over the term of the 2020 Notes using the effective interest method. The 2020 Notes rank equally with our other unsecured and unsubordinated indebtedness. The effective interest rate including the discount and issuance costs is 4.92% for the 2020 Notes. Interest is payable semi-annually, in arrears, on February 1 and August 1, and commenced on August 1, 2010.
In June 2014, we entered into interest rate swaps with a total notional amount of $900 million designated as a fair value hedge related to our 2020 Notes. The interest rate swaps effectively convert the fixed interest rate on our 2020 Notes to a floating interest rate based on LIBOR. Under the terms of the swap, we will pay monthly interest at the one-month LIBOR interest rate plus a fixed number of basis points on the $900 million notional amount. In exchange, we will receive 4.75% fixed rate interest from the swap counterparties. See Note 5 for further details regarding our interest rate swap derivatives.

In January 2015, we issued $1 billion of 3.25% senior notes due February 1, 2025 (the “2025 Notes”). Our proceeds were approximately $989.3 million which is net of an issuance discount of $10.7 million. In addition, we incurred issuance costs of $7.9 million. Both the discount and issuance costs are being amortized to interest expense over the term of the 2025 Notes using the effective interest method. The 2025 Notes rank equally with our other unsecured and

unsubordinated indebtedness. The effective interest rate including the discount, issuance costs and interest rate agreement is 3.67% for the 2025 Notes. Interest is payable semi-annually, in arrears on February 1 and August 1, commencing on August 1, 2015. A portion of the proceeds from this offering was used to repay $600 million in aggregate principal amount of the senior notes plus accrued and unpaid interest due February 1, 2015. The remaining proceeds were used for general corporate purposes.

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ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

As of March 3, 2017, our outstanding notes payable consist of the 2020 Notes and 2025 Notes (the "Notes") with a total carrying value of $1.88 billion which includes the fair value of the interest rate swap and is net of debt issuance costs. Based on quoted prices in inactive markets, the fair value of the Notes was $1.98 billion as of March 3, 2017. The total fair value of $1.98 billion excludes the effect of fair value hedge of the 2020 Notes for which we entered into interest rate swaps as described above.

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 March 3, 2017, we were in compliance with all of the covenants.

In February 2017, we made semi-annual interest payments on our 2020 and 2025 Notes totaling $37.6 million.

Credit Agreement

On March 2, 2012, we entered into a five-year $1 billion senior unsecured revolving credit agreement (the "Credit Agreement"), providing for loans to us and certain of our subsidiaries. Pursuant to the terms of the Credit Agreement, we may, subject to the agreement of the applicable lenders, request up to an additional $500 million in commitments, for a maximum aggregate commitment of $1.5 billion. Loans under the Credit Agreement will bear interest at either (i) LIBOR plus a margin, based on our public debt ratings, ranging from 0.795% and 1.30% or (ii) the base rate, which is defined as the highest of (a) the agent's prime rate, (b) the federal funds effective rate plus 0.50% or (c) LIBOR plus 1.00% plus a margin, based on our debt ratings, ranging from 0.00% to 0.30%. Commitment fees are payable quarterly at rates between 0.08% and 0.20% per year, also based on our debt ratings. Subject to certain conditions stated in the Credit Agreement, we and any of our subsidiaries designated as additional borrowers may borrow, prepay and re-borrow amounts under the revolving credit facility at any time during the term of the Credit Agreement.

The 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.

On March 1, 2013, we exercised an option under the Credit Agreement to extend the maturity date of the Credit Agreement to March 2, 2018. On July 27, 2015, we entered into an amendment to further extend the maturity date to July 27, 2020 and reallocated the facility among the syndicate of lenders that are parties to the Credit Agreement. The facility will terminate and all amounts owing thereunder will be due and payable on the maturity date unless (a) the commitments are terminated earlier upon the occurrence of certain events, including an event of default, or (b) the maturity date is further extended upon our request, subject to the agreement of the lenders.

As of March 3, 2017, there were no outstanding borrowings under this Credit Agreement and we were in compliance with all covenants.

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ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 13. NON-OPERATING INCOME (EXPENSE)

Non-operating income (expense) for the three months ended March 3, 2017 and March 4, 2016 included the following (in thousands):

	Three Months	
	2017	2016
Interest and other income (expense), net:		
Interest income	$14,157	$10,677
Foreign exchange gains (losses)	(7,131)	(6,530)
Realized gains on fixed income investment	294	333
Realized losses on fixed income investment	(134)	(289)
Other	20	(4)
Interest and other income (expense), net	$7,206	$4,187
Interest expense	$(18,130)	$(18,469)
Investment gains (losses), net:		
Realized investment gains	$1,959	$1,055
Realized investment losses	—	(125)
Unrealized investment gains	598	—
Unrealized investment losses	—	(2,099)
Investment gains (losses), net	$2,557	$(1,169)
Non-operating income (expense), net	$(8,367)	$(15,451)

NOTE 14. SEGMENTS

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

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

We have the following reportable segments:

- Digital Media—Our Digital Media segment provides tools and solutions that enable individuals, small and medium businesses and enterprises to create, publish, promote and monetize their digital content anywhere. Our customers include traditional content creators, web application developers and digital media professionals, as well as their management in marketing departments and agencies, companies and publishers. Our customers also include knowledge workers who create, collaborate and distribute documents.
- Digital Marketing—Our Digital Marketing segment provides solutions and services for how digital advertising and marketing are created, managed, executed, measured and optimized. Our customers include digital marketers, advertisers, publishers, merchandisers, web analysts, chief marketing officers, chief information officers and chief revenue officers.
- Print and Publishing—Our Print and Publishing segment addresses market opportunities ranging from the diverse authoring and publishing needs of technical and business publishing to our legacy type and OEM printing businesses.

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ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Our segment results for the three months ended March 3, 2017 and March 4, 2016 were as follows (dollars in thousands):

	Digital Media	Digital Marketing	Print and Publishing	Total
Three months ended March 3, 2017				
Revenue	$1,138,079	$501,143	$42,424	$1,681,646
Cost of revenue	55,052	180,576	1,709	237,337
Gross profit	$1,083,027	$320,567	$40,715	$1,444,309
Gross profit as a percentage of revenue	95 %	64 %	96 %	86 %
Three months ended March 4, 2016				
Revenue	$931,718	$406,246	$45,371	$1,383,335
Cost of revenue	54,547	141,917	2,108	198,572
Gross profit	$877,171	$264,329	$43,263	$1,184,763
Gross profit as a percentage of revenue	94 %	65 %	95 %	86 %

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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 and revenue growth. In addition, when used in this report, the words "will," "expects," "could," "would," "may," "anticipates," "intends," "plans," "believes," "seeks," "targets," " for," "looks to," "continues" and similar expressions, as well as statements regarding our focus for the future, are generally intended to identify forward-looking statements. Each of the forward-looking statements we make in this report involves risks and uncertainties that could cause actual results to differ materially from these forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in the section entitled "Risk Factors" in Part II, Item 1A of this report. You should carefully review the risks described herein and in other documents we file from time to time with the U.S. Securities and Exchange Commission (the "SEC"), including our Annual Report on Form 10-K for fiscal 2016. 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 Systems Incorporated 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 and license our products and services directly to enterprise customers through our sales force and 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 model or a managed services model (both of which are referred to as a hosted or cloud-based model) as well as through term subscription and pay-per-use models. We also distribute certain products and services through a network of distributors, value-added resellers, systems integrators, independent software vendors, retailers, software developers and original equipment manufacturers. 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. We maintain executive offices and principal facilities at 345 Park Avenue, San Jose, California 95110-2704. Our telephone number is 408-536-6000 and our website is www.adobe.com. Investors can obtain copies of our SEC filings from this site free of charge, as well as from the SEC website at www.sec.gov. The information posted to our website is not incorporated into this Quarterly Report on Form 10-Q.

OPERATIONS OVERVIEW

For our first quarter of fiscal 2017, we reported strong financial results consistent with the continued execution of our long-term plans for our two strategic growth areas, Digital Media and Digital Marketing, while continuing to market and license a broad portfolio of products and solutions. Our first quarter of fiscal 2016 financial results benefited from an extra week in the quarter due to our 52/53 week financial calendar whereby fiscal 2016 was a 53-week year compared with fiscal 2017 which is a 52-week year.

In our Digital Media segment, we are a market leader with Adobe Creative Cloud, our subscription-based offering for creating and publishing content and applications. Creative Cloud delivers value through frequent product updates, storage and access to user files stored in the cloud with syncing of files across users' machines, access to marketplace, social and community-based features with our Adobe Stock and Behance services, app creation capabilities and

affordable pricing for cost-sensitive customers.

We offer Creative Cloud for individuals, students, teams and enterprises. These Creative Cloud offerings address the multiple routes to market we use to license our creative software to targeted customers. Adoption of Creative Cloud has transformed our business model, and we continue to expect this to drive higher long-term revenue growth through an expansion of our customer base by acquiring new users through a lower cost of entry and delivery of additional features and value, 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

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and purchase of stock content in our Adobe Stock service. Overall, our strategy with Creative Cloud is designed to enable us to increase our revenue with users, attract more new customers, and grow a recurring and predictable revenue stream that is recognized ratably.

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 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 is now immaterial to our business.

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

Annualized Recurring Revenue ("ARR") is currently the key performance metric our management uses to assess the health and trajectory of our overall Digital Media segment. ARR should be viewed independently of revenue, deferred revenue and unbilled deferred revenue 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 first quarter of fiscal 2017 are based on currency rates set at the start of fiscal 2017 and held constant throughout the year. We calculate ARR as follows:

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

	+ Annual Document Cloud ETLA Contract Value
Digital Media ARR	Creative ARR + Document Cloud ARR

Creative ARR exiting the first quarter of fiscal 2017 was $3.76 billion, up from $3.52 billion at the end of fiscal 2016. Document Cloud ARR exiting the first quarter of fiscal 2017 was $493 million, up from $472 million at the end of fiscal 2016. Total Digital Media ARR grew to $4.25 billion at the end of the first quarter of fiscal 2017, up from $3.99 billion at the end of fiscal 2016.

Our success in driving growth in ARR has positively affected our revenue growth. Creative revenue in the first quarter of fiscal 2017 was $942.2 million, up from $732.9 million in the first quarter of fiscal 2016 and representing 29% year-over-year growth. Document Cloud revenue in the first quarter of fiscal 2017 was $195.9 million, slightly down from $198.8 million in the first quarter of fiscal 2016 as we continue to transition Document Cloud to a subscription-based model. Total Digital Media segment revenue grew to $1,138.1 million in the first quarter of fiscal 2017, up from $931.7 million in the first quarter of fiscal 2016 and representing 22% year-over-year growth.

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We are a market leader in the fast-growing category addressed by our Digital Marketing segment. Our Digital Marketing business provides comprehensive solutions that include analytics, social marketing, targeting, media optimization, digital experience management, cross-channel campaign management, audience management, premium video delivery and monetization. We deliver these capabilities through our Adobe Marketing Cloud, an integrated offering enabling marketers to measure, personalize and optimize marketing campaigns and digital experiences across channels for optimal marketing performance. With its broad set of solutions, including Adobe Analytics, Adobe Target, Adobe Social, Adobe Media Optimizer ("AMO"), Adobe Experience Manager ("AEM"), Adobe Campaign, Adobe Audience Manager and Adobe Primetime, as well as real-time dashboards and a collaborative interface, customers of Adobe Marketing Cloud are able to combine data, insights and digital content to deliver a personalized, relevant experience to their constituents.

In addition to chief marketing officers and digital marketers, users of our Adobe Marketing Cloud solutions include marketing professionals such as search engine marketers, media managers, media buyers and marketing research analysts. Customers also include web content editors, web analysts and web marketing managers. These customers often are involved in workflows that utilize other Adobe products, such as our Digital Media offerings and our video workflow and delivery technologies. By combining the creativity of our Digital Media business with the science of our Digital Marketing 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 salesforce to market and license our Adobe Marketing Cloud solutions, as well as an extensive ecosystem of partners including marketing agencies, systems integrators and developers that help license and deploy our solutions to their customers. We have made significant investments to broaden the scale and size of all of these routes to market, and our recent financial results reflect the success of these investments. We achieved record Marketing Cloud revenue of $477.3 million in the first quarter of fiscal 2017, which represents 26% year-over-year revenue growth. In December 2016, we acquired TubeMogul and we began integrating TubeMogul in our Digital Marketing business in the first quarter of fiscal 2017. TubeMogul's advertising platform offerings contributed $32.1 million to the increase in Marketing Cloud revenue in the first quarter of fiscal 2017. We expect that the addition of TubeMogul and sustained demand across our portfolio of Marketing Cloud solutions will drive revenue growth in future years.

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, goodwill impairment 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, so we consider these to be our critical accounting policies. Historically, our assumptions, judgments and estimates relative to our critical accounting policies have not differed materially from actual results.

There have been no significant changes in our critical accounting policies and estimates during the three months ended March 3, 2017, 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 December 2, 2016.

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.

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RESULTS OF OPERATIONS

Financial Performance Summary for the First Quarter of Fiscal 2017

- Our results of operations for the first quarter of fiscal 2016 were favorably impacted by an extra week due to our first quarter of fiscal 2016 having 14 weeks as compared to 13 weeks in the first quarter of fiscal 2017.

- Total Digital Media ARR of approximately $4.25 billion as of March 3, 2017 increased by $265 million, or 7%, from $3.99 billion as of December 2, 2016. The change in our Digital Media ARR is primarily due to strong adoption of our Creative Cloud and Document Cloud subscription offerings.

- Creative revenue during the three months ended March 3, 2017 of $942.2 million increased by $209.3 million, or 29% compared with the year-ago period. The increase was primarily due to the increase in subscription revenue associated with our Creative Cloud offerings.

- Adobe Marketing Cloud revenue of $477.3 million during the three months ended March 3, 2017 increased by $99.9 million, or 26%, compared with the year-ago period. The increase was primarily due to continued adoption of our AEM offerings and increases in revenue associated with AMO which includes revenue from our advertising platform offerings from our acquisition of TubeMogul in the first quarter of fiscal 2017.

- Our total deferred revenue of $2.06 billion as of March 3, 2017 increased by $45.5 million, or 2%, from $2.01 billion as of December 2, 2016 primarily due to new contracts and renewals for our Adobe Marketing Cloud services.

- Cost of revenue of $237.3 million during the three months ended March 3, 2017 increased by $38.8 million, or 19%, compared with the year-ago period primarily due to increases in data center costs, media costs related to our advertising platform offerings from our acquisition of TubeMogul in the first quarter of fiscal 2017, and costs associated with compensation and related benefits driven by increased headcount.

- Operating expenses of $975.3 million during the three months ended March 3, 2017 increased by $98.3 million, or 11%, compared with the year-ago period primarily due to increases in costs associated with compensation and related benefits driven by increased headcount.

- Net income of $398.4 million during the three months ended March 3, 2017 increased by $144.1 million, or 57%, compared with the year-ago period primarily due to subscription revenue increases.

- Net cash flow from operations of $730.4 million during the three months ended March 3, 2017 increased by $232.8 million, or 47%, compared to the three months ended March 4, 2016 primarily due to higher net income and the decrease in trade receivables, excluding TubeMogul acquired trade receivables.

Revenue for the Three Months Ended March 3, 2017 and March 4, 2016 (dollars in millions)

Revenue for the three months ended March 4, 2016 were favorably impacted by an extra week due to our first quarter of fiscal 2016 having 14 weeks as compared to 13 weeks in the first quarter of fiscal 2017.

	Three Months		
	2017	2016	% Change
Subscription	$1,383.8	$1,070.2	29 %
Percentage of total revenue	82 %	77 %	
Product	183.4	201.1	(9)%
Percentage of total revenue	11 %	15 %	

Services and support	114.4	112.0	2	%
Percentage of total revenue	7 %	8 %		
Total revenue	$1,681.6	$1,383.3	22	%

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

As described in Note 14 of our notes to condensed consolidated financial statements, we have the following segments: Digital Media, Digital Marketing and Print and Publishing. Subscription revenue by reportable segment for the three months ended March 3, 2017 and March 4, 2016 are as follows (dollars in millions):

	Three Months		
	2017	2016	% Change
Digital Media	$1,006.9	$781.9	29 %
Digital Marketing	367.1	280.9	31 %
Print and Publishing	9.8	7.4	32 %
Total subscription revenue	$1,383.8	$1,070.2	29 %

Our services and support revenue is comprised of consulting, training and maintenance and support, primarily related to the licensing of our enterprise, developer and platform products and the sale of our hosted Adobe Marketing Cloud services. Our support revenue also includes technical support and developer support to partners and developer organizations related to our desktop products. Our maintenance and support offerings, which entitle customers to receive desktop product upgrades and enhancements or technical support, depending on the offering, are generally recognized ratably over the term of the arrangement.

Segment Information (dollars in millions)

	Three Months		
	2017	2016	% Change
Digital Media	$1,138.1	$931.7	22 %
Percentage of total revenue	68 %	68 %	
Digital Marketing	501.1	406.2	23 %
Percentage of total revenue	30 %	29 %	
Print and Publishing	42.4	45.4	(7)%
Percentage of total revenue	2 %	3 %	
Total revenue	$1,681.6	$1,383.3	22 %

Digital Media

Revenue from Digital Media increased $206.4 million during the three months ended March 3, 2017, as compared to the three months ended March 4, 2016 primarily driven by increases in revenue associated with our creative offerings.

Revenue associated with our creative offerings, which includes our Creative Cloud, perpetual creative and stock photography offerings, increased during the three months ended March 3, 2017 as compared to the three months ended March 4, 2016 primarily due to the increase in subscription revenue associated with our Creative Cloud offerings driven by the increases in number of paid Creative Cloud individual and team subscriptions. These increases were slightly offset by expected declines in revenue associated with our perpetual creative offerings.

Document Cloud revenue, which includes our Acrobat product family and Adobe Sign service, decreased slightly during the three months ended March 3, 2017 as compared to the year ago period primarily due to expected decreases in revenue associated with our perpetual Acrobat license offering. The decreases were partially offset by increases in revenue associated with our Document Cloud subscription offerings as we continue to migrate more customers to our

Document Cloud, as well as increases in Adobe Sign revenue.

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Digital Marketing

Revenue from Digital Marketing increased $94.9 million during the three months ended March 3, 2017, as compared to the three months ended March 4, 2016 primarily due to continued revenue growth associated with our Adobe Marketing Cloud, which increased 26% during the three months ended March 3, 2017 as compared to the year-ago period. The increases in Adobe Marketing Cloud revenue were primarily driven by the continued adoption of our AEM offerings and increases in revenue associated with AMO which includes revenue from our advertising platform offerings from our acquisition of TubeMogul in the first quarter of fiscal 2017. Also contributing to the increase in Adobe Marketing Cloud revenue were increases in revenue associated with Adobe Campaign and Adobe Audience Manager during the three months ended March 3, 2017.

Geographical Information (dollars in millions)

	Three Months			
	2017	2016	% Change	
Americas	$975.8	$806.5	21	%
Percentage of total revenue	58 %	58 %		
EMEA	459.1	385.6	19	%
Percentage of total revenue	27 %	28 %		
APAC	246.7	191.2	29	%
Percentage of total revenue	15 %	14 %		
Total revenue	$1,681.6	$1,383.3	22	%

Overall revenue during the three months ended March 3, 2017 increased in all geographic regions as compared to the three months ended March 4, 2016 primarily due to increases in Digital Media and Digital Marketing revenue. Within each geographic region, the fluctuations in revenue by reportable segment were attributable to the factors noted in the segment information above. Further, the overall increase in EMEA revenue was slightly offset by declines due to the relative strength of the U.S. Dollar against EMEA currencies.

Foreign currency impacts to revenue for the three months ended March 3, 2017 are shown below.

(in millions)	2017
Revenue impact:	Increase/ (Decrease)
Euro	$ (3.9)
British Pound	(16.4)
Japanese Yen	7.6
Other currencies	0.8
Total revenue impact	(11.9)
Hedging impact:	
Euro	7.9
British Pound	5.0
Japanese Yen	5.4
Total hedging impact	18.3
Total impact	$ 6.4

During the three months ended March 3, 2017, the relative strength of the U.S. Dollar against EMEA currencies caused revenue in EMEA measured in U.S. Dollar equivalents to decrease as compared to the year-ago periods. These decreases were slightly offset by hedging gains from our EMEA currency hedging programs during the three months ended March 3, 2017.

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Cost of Revenue for the Three Months Ended March 3, 2017 and March 4, 2016 (dollars in millions)

	Three Months		
	2017	2016	% Change
Subscription	$141.2	$107.3	32 %
Percentage of total revenue	8 %	8 %	
Product	14.3	20.3	(30)%
Percentage of total revenue	1 %	1 %	
Services and support	81.8	71.0	15 %
Percentage of total revenue	5 %	5 %	
Total cost of revenue	$237.3	$198.6	19 %

Subscription

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

Cost of subscription revenue increased during the three months ended March 3, 2017 as compared to the three months ended March 4, 2016 due to the following:

	% Change 2017-2016 QTD
Data center costs	11 %
Media costs	10
Compensation and related benefits associated with headcount	6
Compensation associated with cash and stock-based incentives	2
Royalty cost	1
Various individually insignificant items	2
Total change	32 %

Data center costs increased during the three months ended March 3, 2017 as compared to the year-ago periods primarily due to higher transaction volumes in our Adobe Marketing Cloud and Creative Cloud services. Also contributing to the increase in cost of subscription revenue during the three months ended March 3, 2017 were increases in media costs related to our advertising platform offerings from our acquisition of TubeMogul in the first quarter of fiscal 2017.

Product

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

Cost of product revenue decreased during the three months ended March 3, 2017 as compared to the three months ended March 4, 2016 primarily due to decreases in amortization of purchased intangibles and royalty costs.

Services and Support

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

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Cost of services and support revenue increased during the three months ended March 3, 2017 as compared to the three months ended March 4, 2016 due to the following:

	% Change 2017-2016 QTD
Compensation and related benefits associated with headcount	16 %
Compensation associated with cash and stock-based incentives	1
Professional and consulting fees	(5)
Various individually insignificant items	3
Total change	15 %

Professional and consulting fees decreased during the three months ended March 3, 2017 as compared to the year-ago period primarily due to decreased usage of outside consultants to provide consulting and training services to our customers.

Operating Expenses for the Three Months Ended March 3, 2017 and March 4, 2016 (dollars in millions)

	Three Months		
	2017	2016	% Change
Research and development	$285.1	$237.2	20 %
Percentage of total revenue	17 %	17 %	
Sales and marketing	520.3	474.9	10 %
Percentage of total revenue	31 %	34 %	
General and administrative	150.8	146.5	3 %
Percentage of total revenue	9 %	11 %	
Amortization of purchased intangibles	19.1	18.4	4 %
Percentage of total revenue	1 %	1 %	
Total operating expenses	$975.3	$877.0	11 %

Research and Development, Sales and Marketing, and General and Administrative Expenses

The increase in research and development, sales and marketing and general and administrative expenses during the three months ended March 3, 2017 as compared to the three months ended March 4, 2016 was primarily due to increases in costs associated with compensation and related benefits driven by increased headcount.

Research and Development

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

Research and development expenses increased during the three months ended March 3, 2017 as compared to the three months ended March 4, 2016 due to the following:

	% Change 2017-2016 QTD
Compensation and related benefits associated with headcount	11 %
Compensation associated with cash and stock-based incentives	3
Professional and consulting fees	2
Seminars and events	4
Total change	20 %

The increase in seminars and events during the three months ended March 3, 2017 as compared to the three months ended March 4, 2016 was primarily due to a technical event for our engineers which was held during the first quarter of

fiscal 2017 that did not occur during the first quarter of fiscal 2016.

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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, 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 months ended March 3, 2017 as compared to the three months ended March 4, 2016 due to the following:

	% Change 2017-2016 QTD
Compensation and related benefits associated with headcount	5 %
Professional and consulting fees	2
Marketing spending related to offering launches and overall marketing efforts	1
Various individually insignificant items	2
Total change	10 %

General and Administrative

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

General and administrative expenses increased during the three months ended March 3, 2017 as compared to the three months ended March 4, 2016 due to the following:

	% Change 2017-2016 QTD
Compensation and related benefits associated with headcount	3 %
Compensation associated with cash and stock-based incentives	2
Professional and consulting fees	(3)
Various individually insignificant items	1
Total change	3 %

Non-Operating Income (Expense), Net for the Three Months Ended March 3, 2017 and March 4, 2016 (dollars in millions)

	Three Months		
	2017	2016	% Change
Interest and other income (expense), net	$7.2	$4.2	71 %
Percentage of total revenue	*	*	

Interest expense	(18.1)	(18.5)	(2)%	
Percentage of total revenue	(1)%	(1)%		
Investment gains (losses), net	2.5	(1.2)	**	
Percentage of total revenue	*	*		
Total non-operating income (expense), net	$(8.4)	$(15.5)	(46)%	

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

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Interest and Other Income (Expense), Net

Interest and other income (expense), net consists primarily of interest earned on cash, cash equivalents and short-term fixed income investments. Interest and other income (expense), net also includes gains and losses on fixed income investments and foreign exchange gains and losses other than any gains recorded to revenue from hedging Euros, British Pounds and Yen currencies.

Interest Expense

Interest expense primarily represents interest associated with our senior notes and interest rate swaps. Interest on our senior notes is payable semi-annually, in arrears, on February 1 and August 1. Floating interest payments on the interest rate swaps are paid monthly. The fixed-rate interest receivable on the swaps is received semi-annually concurrent with the senior notes interest payments. See Notes 5 and 12 of our notes to condensed consolidated financial statements for further details regarding our senior notes and interest rate swaps.

Investment Gains (Losses), Net

Investment gains (losses), net consists principally of realized gains and losses from the sale of marketable equity investments, other-than-temporary declines in the value of marketable and non-marketable equity securities and 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.

Provision for Income Taxes for the Three Months Ended March 3, 2017 and March 4, 2016 (dollars in millions)

	Three Months		
	2017	2016	% Change
Provision	$62.2	$38.0	64 %
Percentage of total revenue	4 %	3 %	
Effective tax rate	14 %	13 %	

Our effective tax rate increased by one percentage point for the three months ended March 3, 2017 as compared to the three months ended March 4, 2016. The increase was due to a one-time tax cost associated with licensing acquired company assets to our trading companies. The increase was offset by the recognition of excess tax benefits due to our early adoption of the new accounting guidance relating to stock-based compensation and the completion of certain income tax examinations. In addition, the effective tax rate during the three months ended March 4, 2016 included a one-time tax benefit related to the retroactive reinstatement of the fiscal 2015 U.S. Research and Development credit. As described in Note 1 of our notes to condensed consolidated financial statements, we early adopted the updated accounting standard for share-based payment accounting in the three months ended March 3, 2017. As a result, we recorded deferred tax attributes that we were previously tracking pursuant to the rules that preceded this standard. The deferred tax asset recorded with the adoption was offset by the establishment of a valuation allowance.

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. In addition to providing for U.S. income taxes on earnings from the United States, we provide for U.S. income taxes on the earnings of foreign subsidiaries unless the subsidiaries' earnings are considered permanently reinvested outside the United States. While we do not anticipate changing our intention regarding permanently reinvested earnings, if certain foreign earnings previously treated as permanently reinvested are repatriated, the related U.S. tax liability may be reduced by any foreign income taxes paid on these earnings. Currently, there is a significant amount of foreign earnings upon which U.S. income taxes have not been provided.

Accounting for Uncertainty in Income Taxes

The gross liability for unrecognized tax benefits at March 3, 2017 was $152.2 million, exclusive of interest and penalties. If the total unrecognized tax benefits at March 3, 2017 were recognized in the future, $126.4 million of unrecognized tax benefits would decrease the effective tax rate, which is net of an estimated $25.8 million federal benefit related to deducting certain payments on future state tax returns.

As of March 3, 2017, the combined amount of accrued interest and penalties related to tax positions taken on our tax returns was $17.2 million. This amount is included in non-current income taxes payable.

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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 current and non-current 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 $25.0 million.

LIQUIDITY AND CAPITAL RESOURCES

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

(in millions)	As of March 3, 2017	December 2, 2016
Cash and cash equivalents	$1,068.9	$ 1,011.3
Short-term investments	$3,578.7	$ 3,750.0
Working capital	$2,801.5	$ 3,028.1
Stockholders' equity	$7,588.7	$ 7,424.8

A summary of our cash flows is as follows:

(in millions)	Three Months Ended March 3, 2017	March 4, 2016
Net cash provided by operating activities	$730.4	$497.5
Net cash used for investing activities	(338.9)	(258.8)
Net cash used for financing activities	(331.5)	(284.4)
Effect of foreign currency exchange rates on cash and cash equivalents	(2.4)	(0.2)
Net increase (decrease) in cash and cash equivalents	$57.6	$(45.9)

Our primary source of cash is receipts from revenue. The primary uses of cash are payroll-related expenses, general operating expenses including marketing, travel and office rent, and cost of revenue. Other sources of cash are proceeds from participation in the employee stock purchase plan and the exercise of employee stock options. Other uses of cash include our stock repurchase program, which is described below, business acquisitions and purchases of property and equipment.

Cash Flows from Operating Activities

Net cash provided by operating activities of $730.4 million for the three months ended March 3, 2017 was primarily comprised of net income plus the net effect of non-cash items. The primary working capital sources of cash were net income coupled with decreases in trade receivables excluding TubeMogul acquired trade receivables, and increases in deferred revenue. Trade receivables declined primarily due to strong collections and improved revenue linearity during the three months ended March 3, 2017. The increase in deferred revenue was primarily due to increases in Digital Marketing hosted services, offset in part by decreases in site and term licenses for certain offerings.

The primary working capital uses of cash were decreases in accrued expenses and income taxes payable. Accrued expenses decreased primarily due to payment of fiscal 2016 bonuses, commissions, and other incentive plans in the first quarter of fiscal 2017. We also made a semi-annual interest payment associated with our senior notes during the three months ended March 3, 2017. These reductions were partially offset by additional interest accruals made during the period. Income taxes payable decreased primarily due to the completion of certain income tax audits and taxes paid, offset in part by increases to the tax provision for the three months ended March 3, 2017.

Cash Flows from Investing Activities

Net cash used for investing activities of $338.9 million for the three months ended March 3, 2017 was primarily due to purchases of short-term investments and our acquisition of TubeMogul. Other uses of cash during the three months

ended March 3, 2017 represented purchases of property and equipment and purchases of long-term investments and other assets. These cash outflows were offset in part by sales and maturities of short-term investments.

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Cash Flows from Financing Activities

Net cash used for financing activities of $331.5 million was primarily due to payments for our treasury stock repurchases and taxes related to net share settlement of equity awards. See the section titled “Stock Repurchase Program” discussed below.

We expect to continue our investing activities, including short-term and long-term investments, venture capital, 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 2017 due to changes in our planned cash outlay, including changes in incremental costs such as direct and integration costs related to our acquisitions. Our intent is to permanently reinvest a significant portion of our earnings from foreign operations, and current plans do not anticipate that we will need funds generated from foreign operations to fund our domestic operations. In the event funds from foreign operations are needed to fund operations in the United States and if U.S. tax has not already been previously provided, we would provide for and pay additional U.S. taxes in connection with repatriating these funds.

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

On March 2, 2012, we entered into a five-year $1 billion senior unsecured revolving credit agreement (the “Credit Agreement”), providing for loans to us and certain of our subsidiaries. On March 1, 2013, we exercised our option under the Credit Agreement to extend the maturity date of the Credit Agreement by one year to March 2, 2018. On July 27, 2015, we entered into an amendment to further extend the maturity date of the Credit Agreement to July 27, 2020 and reallocated the facility among the syndicate of lenders that are parties to the Credit Agreement. As of March 3, 2017, there were no outstanding borrowings under this Credit Agreement and the entire $1 billion credit line remains available for borrowing.

As of March 3, 2017, the amount outstanding under our senior notes was $1.9 billion, consisting of $900 million of 4.75% senior notes due February 1, 2020 and $1 billion of 3.25% senior notes due February 1, 2025.

Our short-term investment portfolio is primarily invested in corporate bonds and commercial paper, U.S. agency securities and U.S. Treasury securities, foreign government securities, municipal securities and asset-backed securities. We use professional investment management firms to manage a large portion of our invested cash. External investment firms managed, on average, 65% of our consolidated invested balances during the three months ended March 3, 2017.

Subsequent to March 3, 2017, we exercised our option to purchase the Almaden Tower for a total purchase price of $103.6 million. Upon purchase, our investment in the lease receivable of $80.4 million was credited against the total purchase price.

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. Our Board of Directors has approved our stock repurchase program wherein we were granted authority to repurchase common stock up to a specified amount and period.

In fiscal 2015, the Board of Directors approved our current stock repurchase authority to repurchase up to $2 billion in common stock through the end of fiscal 2017. Subsequent to March 3, 2017, as part of this $2 billion stock repurchase

authority, we entered into a structured stock repurchase agreement with a large financial institution whereupon we provided them with a prepayment of $300 million. This amount will be classified as treasury stock on our condensed consolidated balance sheets. Upon completion of the $300 million stock repurchase agreement, there will be no remaining amount under the $2 billion authority.

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In the first quarter of fiscal 2017, the Board of Directors approved a new stock repurchase authority to repurchase up to $2.5 billion in common stock through the end of fiscal 2019.

During the three months ended March 3, 2017 and March 4, 2016, we entered into several structured stock repurchase agreements with large financial institutions, whereupon we provided them with prepayments totaling $200 million and $150 million, respectively. The prepayment of $200 million during the three months ended March 3, 2017 and the prepayment of $150 million during the three months ended March 4, 2016 were under the $2 billion authority granted in fiscal 2015. We enter into these agreements in order to take advantage of repurchasing shares at a guaranteed discount to the Volume Weighted Average Price ("VWAP") of our common stock over a specified period of time. We only enter into such transactions when the discount that we receive is higher than the foregone return on our cash prepayments to the financial institutions. There were no explicit commissions or fees on these structured repurchases. Under the terms of the agreements, there is no requirement for the financial institutions to return any portion of the prepayment to us.

The financial institutions agree to deliver shares to us at monthly intervals during the contract term. The parameters used to calculate the number of shares deliverable are: the total notional amount of the contract, the number of trading days in the contract, the number of trading days in the interval and the average VWAP of our stock during the interval less the agreed upon discount. During the three months ended March 3, 2017, we repurchased approximately 2.2 million shares at an average price of $107.54 through structured repurchase agreements entered into during fiscal 2016 and the three months ended March 3, 2017. During the three months ended March 4, 2016, we repurchased approximately 1.5 million shares at an average price of $88.67 through structured repurchase agreements entered into during fiscal 2015 and the three months ended March 4, 2016.

For the three months ended March 3, 2017, the prepayments were classified as treasury stock on our condensed consolidated balance sheets at the payment date, though only shares physically delivered to us by March 3, 2017 were excluded from the computation of earnings per share. As of March 3, 2017, $62.5 million of prepayment remained under this agreement.

Refer to Part II, Item 2 in this report for share repurchases during the quarter ended March 3, 2017.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Our principal commitments as of March 3, 2017 consist of obligations under operating leases, royalty agreements and various service agreements. Except as discussed below, there have been no material changes in those obligations during the three months ended March 3, 2017. See Notes 11 and 12 of our notes to condensed consolidated financial statements for more detailed information regarding our contractual commitments.

Purchase Obligations

The following table updates our purchase obligations as of March 3, 2017 (in millions).

	Payment Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Purchase obligations	$300.0	$ 20.0	$ 60.0	$ 220.0	$ —

Senior Notes

Interest on our senior notes is payable semi-annually, in arrears on February 1 and August 1. At March 3, 2017, our maximum commitment for interest payments was $388.3 million for the remaining duration of our senior notes.

Covenants

Our credit facility contains a financial covenant requiring us not to exceed a maximum leverage ratio. As of March 3, 2017, we were in compliance with all of our covenants. We believe these covenants will not impact our credit or cash in the coming fiscal year or restrict our ability to execute our business plan. Our senior notes do not contain any financial covenants.

Under the terms of our credit agreement we are not prohibited from paying cash dividends unless payment would trigger an event of default or one currently exists. We do not anticipate paying any cash dividends in the foreseeable

future.

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Royalties

We have certain royalty commitments associated with the shipment and licensing of certain products. 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 against claims of intellectual property infringement made by third parties arising from the use of our products and from time to time, we are subject to claims by our customers under these indemnification provisions. Historically, costs related to these indemnification provisions have not been significant and we are unable to estimate the maximum potential impact of these indemnification provisions on our future results of operations.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We believe that there have been no material changes in our market risk exposures for the three months ended March 3, 2017, as compared with those discussed in our Annual Report on Form 10-K for the fiscal year ended December 2, 2016.

ITEM 4. CONTROLS AND PROCEDURES

Based on their evaluation as of March 3, 2017, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective at the reasonable assurance level to ensure that the information required to be disclosed by us in this Quarterly Report on Form 10-Q was (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting during the quarter ended March 3, 2017 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 11 "Commitments and Contingencies" of our notes to condensed consolidated financial statements regarding our legal proceedings.

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ITEM 1A. RISK FACTORS

As previously discussed, our actual results could differ materially from our forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed below. These and many other factors described in this report could adversely affect our operations, performance and financial condition.

If we cannot continue to develop, 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 new technology products and services and enhancing existing offerings is complex, costly and uncertain. If we fail to anticipate customers' changing needs and emerging technological trends, our market share and results of operations could suffer. We must make long-term investments, develop 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 are unable to extend our core technologies into new applications and platforms and to anticipate or respond to technological trends, the market's acceptance of our products and services could decline and our results would suffer. Additionally, any delay in the development, 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. Furthermore, third parties market certain of our offerings and support certain product functionality. If we are unsuccessful in establishing or maintaining our strategic relationships with these third parties, our ability to compete in the marketplace, to reach new customers and geographies or to grow our revenue could be impaired and our operating results could suffer.

We offer our products on a variety of hardware platforms. Consumers continue to shift away from personal computers to tablet and mobile devices. If we cannot continue to adapt our products to tablet and mobile devices, our business could be harmed. To the extent that consumer purchases of these devices slow down, or to the extent that significant demand arises for our products or competitive products on other platforms before we offer our products on those platforms, 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 products, services and business models by competitors or others could harm our competitive position and results of operations.

The markets for our products and services are characterized by intense competition, evolving industry standards, emerging business and distribution models, disruptive technology developments, short life cycles, customer price sensitivity and frequent new 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 upgrade rates, as well as our ability to attract new customers. Our future success will depend on our continued ability to enhance and better integrate our existing products and services, introduce new products and services in a timely and cost-effective manner, meet changing customer needs, extend our core technology into new applications, and anticipate emerging standards, business models, software delivery methods and other technological developments. If any competing products, services or operating systems that are not compatible with our solutions achieve widespread acceptance, our operating results could suffer. In addition, consolidation has occurred among some of the competitors in the markets in which we compete. Further consolidations in these markets may subject us to increased competitive pressures and may therefore harm our results of operations.

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

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 Item 1 of our Annual Report on Form 10-K for the fiscal year ended December 2, 2016.

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We may be unable to predict subscription renewal rates and the impact these rates may have on our future revenue and operating results.

The hosted business model we use in our Adobe Marketing Cloud offerings typically involves selling services on a subscription basis pursuant to service agreements that are generally one to three years in length. Our individual Creative Cloud and Document Cloud subscription agreements are generally month-to-month or one year in length, ETLAs for our Digital Media products and services are generally three years in length, and subscription agreements for other products and services may provide for shorter or longer terms. Our customers have no obligation to renew their subscriptions for our services after the expiration of their initial subscription period, and some customers elect not to renew. We cannot provide assurance that our subscriptions will be renewed at the same or higher level of service, for the same number of seats or licenses or for the same duration of time, if at all. Moreover, under certain circumstances, some of our customers have the right to cancel their service agreements prior to the expiration of the terms of their agreements. 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 to regularly add features and functionality, the reliability (including uptime) of our subscription services, the prices of our services, the actual or perceived information security of our systems and services, the prices of services offered by our competitors, mergers and acquisitions affecting our customer base, reductions in our customers' spending levels or declines in customer activity as a result of economic downturns or uncertainty in financial markets. If our customers do not renew their subscriptions for our services or if they renew on terms less favorable to us, our revenue may decline.

Our future growth is also affected by our ability to sell additional features and services to our current customers, which depends on a number of factors, including customers' satisfaction with our products and services, the level of innovation reflected in those additional features, the prices of our offerings and general economic conditions. If our efforts to cross-sell and upsell to our customers are unsuccessful, the rate at which our business grows may decline.

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

Our subscription model creates certain risks related to the timing of revenue recognition and potential reductions in cash flows. A portion of the subscription-based revenue we report each quarter results from the recognition of deferred revenue relating to subscription agreements entered into during previous quarters. A decline in new or renewed subscriptions in any period may not be immediately reflected in our reported financial results for that period, but may result in a decline in our revenue in future quarters. If we were to experience significant downturns in subscription sales and renewal rates, our reported financial results might not reflect such downturns 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 due to multiple-element revenue arrangements and alternative licensing arrangements. If any of our assumptions about revenue from our new businesses or our subscription-based model prove incorrect, our actual results may vary materially from those anticipated, estimated or projected.

If we fail to successfully manage transitions to new business models and markets, our results of operations could suffer.

We often release new offerings and employ new product and service delivery methods in connection with our diversification into new business models and markets. It is uncertain whether these strategies will prove successful or whether we will be able to develop the necessary infrastructure and business models more quickly than our competitors. Market acceptance of new product and service offerings will be dependent in part on our ability to (1) include functionality and usability that satisfy customer requirements, and (2) optimally price our products and services in light of marketplace conditions, our costs and customer demand. New product and service offerings may increase our risk of liability related to the provision of services and cause us to incur significant technical, legal or other costs. Market acceptance of such services is affected by a variety of factors, including information security, reliability, performance, customer preference, social and community engagement, local government regulations

regarding online services and user-generated content, the sufficiency of technological infrastructure to support our products and services in certain geographies, customer concerns with entrusting a third party to store and manage customer data and customer content, consumer concerns regarding data privacy and the enactment of laws or regulations that restrict our ability to provide such services to customers in the United States or internationally. If we are unable to respond to these factors, our business could be harmed.

From time to time we open-source certain of our technology initiatives, provide broader open access to our technology, license certain of our technology on a royalty-free basis or release selected technology for industry standardization. Additionally, customer requirements for open standards or open-source products could impact adoption or use of some of our products or services. To the extent we incorrectly predict customer requirements for such products or services, or if there is a delay in market acceptance of such products or services, our business could be harmed.

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We also devote significant resources to the development of technologies and service offerings in markets where our operating history is less extensive. These new offerings and markets may require a considerable investment of technical, financial, compliance and sales resources, and a scalable organization. Some of our competitors may have advantages over us due to their larger presence, larger developer network, deeper market experience and larger sales, consulting and marketing resources. In addition, the metrics we use to gauge the status of our business model transition may evolve as significant trends emerge. If we are unable to successfully establish new offerings in light of the competitive environment, our results of operations could suffer.

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. Uncertainty about the effects of current and future economic and political conditions on us, our customers, suppliers and partners makes it difficult for us to forecast operating results and to make decisions about future investments. If economic growth in countries where we do business slows, customers may delay or reduce technology purchases, advertising spending or marketing spending. This could result in reductions in sales of our products and services, more extended sales cycles, slower adoption of new technologies and increased price competition. Our customers include government entities, including the U.S. federal government, and if spending cuts impede the government's ability to purchase our products and services, our revenue could decline. 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 financial sector credit crisis could impair credit availability and the financial stability of our customers, including our distribution partners and channels. A disruption in the financial markets may also have an effect on our derivative counterparties and could also impair our banking partners, on which we rely for operating cash management. Any of these events would likely harm our business, results of operations and financial condition.

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, results of operations and financial condition.

Certain 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 Marketing Cloud solutions and ETLAs in our Digital Media business, are multi-phased and complex. The complexity in these sales cycles is due to a number of factors, including:

- the need for our sales representatives to educate customers about the use and benefit of our large-scale deployments of our products and services, including technical capabilities, security features, potential cost savings and return on investment;
- the desire of large and medium size 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;
- the negotiation of large, complex, enterprise-wide contracts, as often required by our and our customers' business and legal representatives;
- the need for our customers to obtain requisition approvals from various decision makers within their organizations; and
- customer budget constraints, economic conditions and unplanned administrative delays.

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

difficult to predict when a given sales cycle will close.

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

Maintaining the security of our products, computers and networks is a critical issue for us and our customers. Security researchers, criminal hackers and other third parties regularly develop new techniques to penetrate computer and network security measures and, as we have previously disclosed, certain parties have in the past managed to breach certain of our data security systems and misused certain of our systems and software in order to access our end users' authentication and payment information. In addition, cyber-attackers also develop and deploy viruses, worms and other malicious software programs, some of which may be specifically designed to attack our products, systems, computers or networks. Sophisticated hardware and operating system applications that we develop or procure from third parties may contain defects in design or manufacture, including bugs 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 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 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 information via illegal electronic spamming, phishing or other tactics. Unauthorized parties may also attempt to gain physical access to our facilities in order to infiltrate our information systems. 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, 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 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 certain of our applications. These vulnerabilities could cause such applications to crash and could allow an attacker to 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 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 or our customers are subject to a future attack, or our technology is used in a third-party attack, 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.

We rely on data centers managed both by Adobe and third parties to host and deliver our services, as well as collect, use, transmit, and store data, and any interruptions or delays in these hosted services, security or privacy breaches, or

failures in data collection or transmission could expose us to liability and harm our business and reputation.

Most of our lines of business and services, including our online store at adobe.com, Creative Cloud, Document Cloud, other hosted Digital Media offerings and our Adobe Marketing Cloud solutions, rely on hardware and services hosted and controlled directly by us or by our third-party service providers. 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, we might not be able to deliver the corresponding hosted offerings to our customers, which could subject us to reputational harm and cause us to lose customers and future business, thereby reducing our revenue.

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We hold large amounts of customer data, most of which is hosted in third-party facilities. A security incident at those facilities or ours may compromise the confidentiality, integrity or availability of customer data. Unauthorized access to or disclosure of data stored on our computers or our service providers' systems may be accessed through break-ins, breaches of our secure network by an unauthorized party, employee theft or misuse or other misconduct. It is also possible that unauthorized access to or disclosure of customer data may be obtained through inadequate use of security controls by customers or employees. Accounts created with weak passwords could allow cyber-attackers to gain access to customer data. Additionally, failure by customers to remove accounts of their own employees, or the granting of accounts by the customer in an uncontrolled manner, may allow for access by former or unauthorized customer representatives. If there were an inadvertent disclosure of customer information, or if a third party were to gain unauthorized access to the information 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 disclosure of the information we collect or breach of our security could damage our reputation, result in the loss of customers and harm our business.

Because of the large amount of data that our customers collect and manage using our hosted solutions, it is 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 to be incomplete or contain inaccuracies that our customers regard as significant or cause us to fail to meet committed service levels. 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 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. 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. 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, or we could be found liable for damages or incur other losses.

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

We prepare our condensed 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 U.S. Securities and Exchange Commission and various bodies formed to interpret and create appropriate accounting principles. A change in these principles can have a significant effect on our reported results and may even retroactively affect previously reported transactions. Additionally, the adoption of new or revised accounting principles may require that we make significant changes to our systems, processes and controls.

For example, the Financial Accounting Standards Board has issued new accounting standards for revenue recognition and leasing and while we know they will have an impact, we are still evaluating the extent that these new accounting standards will have on our consolidated financial statements and related disclosures. 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 updated 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."

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

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

- difficulty in integrating the operations and personnel of the acquired business;
- difficulty in effectively integrating the acquired technologies, products or services with our current technologies, products or services;
- difficulty in maintaining controls, procedures and policies during the transition and integration;

- 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;

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- 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 achieve the financial and strategic goals for the acquired and combined businesses;
- 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 exposure to fluctuations in currency exchange rates;
- additional costs of bringing acquired companies into compliance with laws and regulations applicable to us as a multinational corporation;
- 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, including, but not limited to, issues with the acquired company's intellectual property, product quality or product architecture, data back-up and security (including security from cyber-attacks), privacy practices, revenue recognition or other accounting practices, employee, customer or partner issues or legal and financial contingencies;
- exposure to litigation or other claims in connection with, or inheritance of claims or litigation risk as a result of, an acquisition, including, but not limited to, 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 high 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.

The success of certain 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 certain 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. To maintain and grow these businesses, we must regularly add new customers and retain existing customers. 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. To attract new customers and contributors and retain existing ones, 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. 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.

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We may incur substantial costs enforcing or acquiring intellectual property rights and defending against third-party claims as a result of litigation or other proceedings.

In connection with the enforcement of our intellectual property rights, the acquisition of third-party intellectual property rights, or 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 and complex, protracted litigation. Intellectual property disputes and litigation are typically costly and can be disruptive to our business operations by diverting the attention and energies of management and key personnel. We may not prevail in every future 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.

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 assets in this portfolio could result in lost revenues and thereby 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.

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.

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

U.S. privacy and data security laws apply to our various businesses. We also do business globally in countries that have more stringent data protection laws than those in the United States that may be inconsistent across jurisdictions and are subject to evolving and differing interpretations. Governments, privacy advocates and class action attorneys are increasingly scrutinizing how companies collect, process, use, store, share and transmit personal data. Globally, new laws and industry self-regulatory codes have been enacted and more are being considered that 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). Any perception of our practices, products or services as a violation of individual privacy rights, whether or not consistent with current regulations and industry practices, 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, both laws regulating privacy and third-party products purporting to address privacy concerns could negatively affect the functionality of, and demand for, our products and services, thereby reducing our revenue.

On behalf of certain customers, we collect and store anonymous and personal information derived from the activities of end users with various channels, including traditional websites, mobile websites and applications, email interactions, direct mail, point of sale, text messaging and call centers. Federal, state and foreign governments and

agencies have adopted or are considering adopting laws regarding the collection, storage, use and disclosure of this information. Our compliance with privacy laws and regulations and our reputation among consumers depend in part on our customers' adherence to privacy laws and regulations and their use of our services in ways consistent with such consumers' expectations. We also rely on contractual representations made to us by customers that their own use of our services and the information they provide to us via our services do not violate any applicable privacy laws, rules and regulations or their own privacy policies. As a component of our standardized customer contract, we obligate customers to provide their consumers the opportunity to obtain the appropriate level of consent for the information collection associated with our services, as applicable. We do not formally audit such customers to confirm compliance with these

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representations. If these representations are false, inaccurate, or if our customers do not otherwise comply with applicable privacy laws, we could face adverse publicity and possible legal or other regulatory action. In addition, some countries have enacted laws that expand the scope of privacy-related obligations required of service providers, such as Adobe, requiring additional compliance expense and increasing our liability risk.

Transferring personal information across international borders in becoming increasingly more complex. For example, European data transfers outside the European Economic Area are highly regulated. And, the mechanisms that we and many other companies rely upon for European data transfers (Privacy Shield and Model Clauses) are being contested in the European court system. In the last year, at least one EU regulator determined that, with respect to a small number of vendors that process certain of our EU employee data, we did not implement appropriate means quickly enough, resulting in a small fine levied against us. We are closely monitoring developments related to requirements for transferring personal data outside the EU, such as Privacy Shield and Model Clauses. These requirements may result in an increase in the obligations required of us to provide our services in the EU and in sanctions and fines for non-compliance. Several other countries, including Australia and Japan, have also established specific legal requirements for cross-border transfers of personal information. These developments in Europe and elsewhere could harm our business, financial condition and results of operations.

Failure to manage our sales and distribution channels and third-party customer service and technical support providers effectively could result in a loss of revenue and harm to our business.

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

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

Our distributors also sell our competitors' products and services, and if they favor our competitors' products or services for any reason, they may fail to market our products or services effectively or to devote resources necessary to provide effective sales, which would cause our results to suffer. We also distribute some products and services through our OEM channel, and if our OEMs decide not to bundle our applications on their devices, our results could suffer.

In addition, the financial health of our distributors and our continuing relationships with them are important to our success. Some of these distributors may be unable to withstand adverse changes in economic conditions, which could result in insolvency and/or the inability of such distributors to obtain credit to finance purchases of our products and services. In addition, weakness in the end-user market could negatively affect the cash flows of our distributors who could, in turn, delay paying their obligations to us, which would increase our credit risk exposure. Our business could be harmed if the financial condition of some of these distributors substantially weakened and we were unable to secure replacement distributors in a timely manner.

We also sell certain 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 training for sales representatives, including regular updates to cover new and upgraded systems, products and services. 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.

We also 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. Ineffectively managing these risks 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.

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We outsource a substantial portion of our customer service and technical support activities to third-party service providers. We rely 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 and we could lose customers and associated revenue.

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

Much of our future success depends on the continued service, availability and performance of our senior management. These individuals have acquired specialized knowledge and skills with respect to Adobe. The loss of any of these individuals could harm our business, especially in the event that 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. 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. If we are unable to continue to successfully attract and retain key personnel, our business may be harmed. Effective succession planning is also a key factor for our long-term success. Our failure to enable the effective transfer of knowledge and facilitate smooth transitions of our key employees could adversely affect our long-term strategic planning and execution.

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.

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

We are a U.S.-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. In addition to providing for U.S. income taxes on earnings from the United States, we provide for U.S. income taxes on the earnings of foreign subsidiaries unless the subsidiaries' earnings are considered permanently reinvested outside the United States. While we do not anticipate changing our intention regarding permanently reinvested earnings, if certain foreign earnings previously treated as permanently reinvested are repatriated, the related U.S. tax liability may be reduced by any foreign income taxes paid on these earnings.

Our income tax expense has differed from the tax computed at the U.S. federal statutory income tax rate due primarily to discrete items and to earnings considered as permanently reinvested in foreign operations. Unanticipated changes in our tax rates could affect our future results of operations. Our future effective tax rates could be unfavorably affected by changes in the tax rates in jurisdictions where our income is earned, 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, or by changes in the valuation of our deferred tax assets and liabilities. The United States, the European Commission, countries in the EU and other countries where we do business have been considering changes in relevant tax, accounting and other laws, regulations and interpretations, including changes to tax laws applicable to corporate multinationals such as Adobe. These potential changes could adversely affect our effective tax rates or result in other costs to us.

In addition, we are subject to the continual examination of our income tax returns by the U.S. Internal Revenue Service ("IRS") and other domestic and foreign tax authorities. These tax examinations are expected to focus on our intercompany transfer pricing practices as well as other matters. We regularly assess the likelihood of outcomes resulting from these examinations to determine the adequacy of our provision for income taxes and have reserved for adjustments that may result from the current 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.

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

Because our products are distributed and used globally, our operating results are subject to fluctuations in foreign currency exchange rates. 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 have established a program to partially hedge our exposure to foreign currency exchange rate fluctuations for various currencies and we regularly review this hedging program and make adjustments as necessary based on the factors discussed above. 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.

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If we fail to process transactions effectively, our revenue and earnings may be harmed.

We process a significant volume of transactions on a daily basis in our Digital Marketing and Digital Media businesses. Due to the size and volume of transactions that we handle, effective processing systems and controls are essential, but even the most sophisticated systems and controls may not be effective in preventing all errors. The systems supporting our business are comprised of multiple technology platforms that may be difficult to scale. If we are unable to effectively manage these systems and processes, we may be unable to process customer data in an accurate, reliable and timely manner, which may harm our customer relationships or results of operations.

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

The market price for our common stock has in the past experienced significant fluctuations and may do so in the future. A number of factors may affect the market price for our common stock, including:

- shortfalls in our revenue, margins, earnings, Annualized Recurring Revenue ("ARR"), bookings within our Adobe Marketing Cloud business 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 or service introductions 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;
- variations in our or our competitors' results of operations, changes in the competitive landscape generally and developments in our industry; and
- unusual events such as significant acquisitions, divestitures, litigation, general socio-economic, regulatory, political or market conditions and other factors, including factors unrelated to our operating performance.

In addition, the technology industry as a whole may experience uneven investor confidence, which may cause the market price for our common stock to decline for reasons unrelated to our operating performance.

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, employment and labor relations laws, 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. 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. We incur additional legal compliance costs associated with our global operations and could become subject to legal penalties if we fail to comply with local laws and regulations in U.S. jurisdictions or in foreign countries, which laws and regulations may be substantially different from those in the United States. 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 all of our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, including those based in or from countries where practices that violate such U.S. laws may be customary, will not take actions in violation of our internal policies or U.S. laws and regulations. Any such violation could have an adverse effect on our business.

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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;
- changes in government preferences for software procurement;
- international and regional economic, political and labor conditions, including any instability or security concerns abroad;
- tax laws (including U.S. taxes on foreign subsidiaries);
- increased financial accounting and reporting burdens and complexities;
- unexpected 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, including terrorism, war, natural disasters and pandemics.

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.

In addition, approximately 52% 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. We may continue to expand our international operations and international sales and marketing activities. Expansion in international markets has required, and will continue to 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, which would cause our results to suffer.

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

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

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

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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.

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

Under GAAP, we review our goodwill and amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. GAAP requires us to test for goodwill impairment at least annually. 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. We could be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets were determined, negatively impacting our results of operations.

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 our website for our development, marketing, operational, 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, cyber-attack, war, terrorist attack or other catastrophic event that our disaster recovery plans could 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.

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 and India are vulnerable to prolonged droughts due to climate change. 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. In the event of a natural disaster that disrupts business due to limited access to these resources, Adobe has the potential to experience losses to our business, time required to recover, and added costs to resume operations.

Additionally, climate change may pose regulatory and environmental challenges that affect where we locate our offices, who we partner with, and how we deliver products and services to our customers.

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

Our cash equivalent and short-term investment portfolio as of March 3, 2017 consisted of corporate bonds and commercial paper, U.S. agency securities and U.S. Treasury securities, money market mutual funds, municipal securities, time deposits and asset-backed securities. We follow an established investment policy and set of guidelines to monitor and help mitigate our exposure to interest rate and credit risk. The policy sets forth credit quality standards and limits our exposure to any one issuer, as well as our maximum exposure to various asset classes.

Should financial market conditions worsen in the future, investments in some financial instruments may pose risks arising from market liquidity and credit concerns. In addition, any deterioration of the capital markets could cause our other income and expense to vary from expectations. As of March 3, 2017, 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.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Below is a summary of stock repurchases for the three months ended March 3, 2017. See Note 9 of our notes to condensed consolidated financial statements for information regarding our stock repurchase program.

Period	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 thousands, except average price per share)			
Beginning repurchase authority[1]				$600,096
December 3—December 30, 2016				
Shares repurchased	963	$103.91	963	$(100,096)
December 31—January 27, 2017				
Shares repurchased	649	$106.09	649	$(68,852)[2]
January 28—March 3, 2017				
Shares repurchased	597	$114.97	597	$(68,621)[2]
Additional repurchase authority granted[3]				$2,500,000
Total	2,209		2,209	$2,862,527

(1) In January 2015, the Board of Directors granted authority to repurchase up to $2.0 billion in common stock through the end of fiscal 2017.

(2) In December 2016, we entered into a structured stock repurchase agreement with a large financial institution whereupon we provided them with a prepayment of $200 million. As of March 3, 2017, $62.5 million of the prepayment remained under this agreement.

(3) In January 2017, the Board of Directors approved a new stock repurchase authority to repurchase up to $2.5 billion in common stock through the end of fiscal 2019. The new authority approved by our Board of Directors is similar to our previous $2.0 billion authority.

ITEM 4. MINE SAFETY DISCLOSURES
Not applicable.

ITEM 5. OTHER INFORMATION
None

ITEM 6. EXHIBITS

The exhibits listed in the accompanying "Index to Exhibits" are filed or incorporated by reference as part of this Form 10-Q.

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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 SYSTEMS
INCORPORATED

By: /s/ MARK GARRETT
Mark Garrett
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: March 29, 2017

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SUMMARY OF TRADEMARKS

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

Adobe
Acrobat
Behance
Creative Cloud
Reader
TubeMogul

All other trademarks are the property of their respective owners.

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INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference**				Filed Herewith
		Form	Filing Date	Exhibit Number	SEC File No.	
3.1	Restated Certificate of Incorporation of Adobe Systems Incorporated	8-K	4/26/11	3.3	000-15175	
3.2	Amended and Restated Bylaws	8-K	9/2/16	3.2	000-15175	
4.1	Specimen Common Stock Certificate	10-Q	6/25/14	4.1	000-15175	
4.2	Form of Indenture	S-3	1/15/10	4.1	333-164378	
4.3	Forms of Global Note for Adobe Systems Incorporated's 4.750% Notes due 2020, together with Form of Officer's Certificate setting forth the terms of the Note	8-K	1/26/10	4.1	000-15175	
4.4	Form of Global Note for Adobe Systems Incorporated's 3.250% Notes due 2025, together with Form of Officer's Certificate setting forth the terms of the Note	8-K	1/26/15	4.1	000-15175	
10.1A	Amended 1994 Performance and Restricted Stock Plan*	10-Q	4/9/10	10.1	000-15175	
10.1B	Form of Restricted Stock Agreement used in connection with the Amended 1994 Performance and Restricted Stock Plan*	10-K	1/23/09	10.3	000-15175	
10.1C	Form of Restricted Stock Unit Agreement used in connection with the Amended 1994 Performance and Restricted Stock Plan*	10-K	1/26/12	10.13	000-15175	
10.2	1997 Employee Stock Purchase Plan, as amended*	10-Q	6/29/16	10.3	000-15175	
10.3A	2003 Equity Incentive Plan, as amended*	8-K	4/14/16	10.1	000-15175	
10.3B	Form of Stock Option Agreement used in connection with the 2003 Equity Incentive Plan*	8-K	12/20/10	99.4	000-15175	
10.3C	Form of RSU Grant Notice and Award Agreement pursuant to 2003 Equity Incentive Plan*	8-K	1/27/17	10.6	000-15175	
10.3D	Form of Restricted Stock Agreement used in connection with the 2003 Equity Incentive Plan*	10-Q	10/7/04	10.11	000-15175	
10.3E	2013 Performance Share Program pursuant to the 2003 Equity Incentive Plan*	8-K	1/28/13	10.2	000-15175	

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Exhibit Number	Exhibit Description	Incorporated by Reference**				Filed Herewith
		Form	Filing Date	Exhibit Number	SEC File No.	
10.3F	Form of Performance Share Award Grant Notice and Performance Share Award Agreement pursuant to the 2003 Equity Incentive Plan (applicable to the 2013 Performance Share Program)*	8-K	1/28/13	10.3	000-15175	
10.3G	2014 Performance Share Program pursuant to the 2003 Equity Incentive Plan*	8-K	1/29/14	10.2	000-15175	
10.3H	Form of Performance Share Award Grant Notice and Performance Share Award Agreement pursuant to the 2003 Equity Incentive Plan (applicable to the 2014 Performance Share Program)*	8-K	1/29/14	10.3	000-15175	
10.3I	2015 Performance Share Program pursuant to the 2003 Equity Incentive Plan*	8-K	1/28/15	10.2	000-15175	
10.3J	Form of 2015 Performance Share Award Grant Notice and Award Agreement pursuant to the 2003 Equity Incentive Plan (applicable to the 2015 Performance Share Program)*	8-K	1/28/15	10.3	000-15175	
10.3K	2016 Performance Share Program pursuant to the 2003 Equity Incentive Plan*	8-K	1/29/16	10.2	000-15175	
10.3L	Form of 2016 Performance Share Award Grant Notice and Award Agreement pursuant to the 2003 Equity Incentive Plan (applicable to the 2016 Performance Share Program)*	8-K	1/29/16	10.3	000-15175	
10.3M	Form of Director Initial Grant Restricted Stock Unit Award Agreement used in connection with the 2003 Equity Incentive Plan*	8-K	12/20/10	99.6	000-15175	
10.3N	Form of Director Annual Grant Restricted Stock Unit Award Agreement used in connection with the 2003 Equity Incentive Plan*	8-K	12/20/10	99.7	000-15175	
10.3O	Form of Director Annual Grant Stock Option Agreement used in connection with the 2003 Equity Incentive Plan*	8-K	12/20/10	99.8	000-15175	
10.3P	2017 Performance Share Program pursuant to the 2003 Equity Incentive Plan*	8-K	1/27/17	10.2	000-15175	
10.3Q	Form of 2017 Performance Share Award Grant Notice and Award Agreement pursuant to 2017 Performance Share Program and 2003 Equity Incentive Plan*	8-K	1/27/17	10.3	000-15175	

10.4A	2005 Equity Incentive Assumption Plan, as amended and restated*	10-Q	6/28/13	10.17	000-15175

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Exhibit Number	Exhibit Description	Incorporated by Reference**				Filed Herewith
		Form	Filing Date	Exhibit Number	SEC File No.	
10.4B	Form of Stock Option Agreement used in connection with the 2005 Equity Incentive Assumption Plan*	8-K	12/20/10	99.10	000-15175	
10.4C	Form of RSU Grant Notice and Award Agreement pursuant to the 2005 Equity Incentive Assumption Plan*	8-K	1/28/13	10.7	000-15175	
10.5	Retention Agreement between Adobe Systems Incorporated and Shantanu Narayen, effective December 5, 2014	8-K	12/11/14	10.20	000-15175	
10.6	Form of Indemnity Agreement*	10-Q	6/26/09	10.12	000-15175	
10.7	Adobe Systems Incorporated Deferred Compensation Plan, as Amended and Restated*	10-K	1/20/15	10.19	000-15175	
10.8A	Credit Agreement, dated as of March 2, 2012, among Adobe Systems Incorporated and certain subsidiaries as Borrowers, The Royal Bank of Scotland PLC and U.S. Bank National Association as Co-Documentation Agents, JPMorgan Chase Bank, N.A., as Syndication Agent, Bank of America, N.A. as Administrative Agent and Swing Line Lender, and the Other Lenders Party Thereto	8-K	3/7/12	10.1	000-15175	
10.8B	Amendment to Credit Agreement, dated as of July 27, 2015, among Adobe Systems Incorporated and Bank of America, N.A. as Administrative Agent and Swing Line Lender and the Other Lenders Party Thereto	8-K	7/30/15	10.1	000-15175	
10.9	Omniture, Inc. 2006 Equity Incentive Plan and related forms*	10-Q	8/6/09	10.3	000-52076	
10.10	Omniture, Inc. 2007 Equity Incentive Plan and related forms*	10-K	2/27/09	10.9	000-52076	
10.11	Omniture, Inc. 2008 Equity Incentive Plan and related forms*	10-K	2/27/09	10.10	000-52076	
10.12	Demdex, Inc. 2008 Stock Plan, as amended*	S-8	1/27/11	99.1	333-171902	
10.13	2013 Executive Annual Incentive Plan*	8-K	1/28/13	10.5	000-15175	
10.14	2014 Executive Annual Incentive Plan*	8-K	1/29/14	10.5	000-15175	
10.15	2015 Executive Annual Incentive Plan*	8-K	1/28/15	10.5	000-15175	

10.16	2016 Executive Annual Incentive Plan*	8-K	1/29/16	10.5	000-15175
10.17	2016 Executive Cash Performance Bonus Plan*	8-K	1/29/16	10.4	000-15175

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Exhibit Number	Exhibit Description	Incorporated by Reference**				Filed Herewith
		Form	Filing Date	Exhibit Number	SEC File No.	
10.18	2017 Executive Annual Incentive Plan*	8-K	1/27/17	10.5	000-15175	
10.19	EchoSign, Inc. 2005 Stock Plan, as amended*	S-8	7/29/11	99.1	333-175910	
10.20	TypeKit, Inc. 2009 Equity Incentive Plan, as amended*	S-8	10/7/11	99.1	333-177229	
10.21	Auditude, Inc. 2009 Equity Incentive Plan, as amended*	S-8	11/18/11	99.1	333-178065	
10.22	Auditude, Inc. Employee Stock Option Plan, as amended*	S-8	11/18/11	99.2	333-178065	
10.23	Efficient Frontier, Inc. 2003 Stock Option/Stock Issuance Plan, as Amended and Restated*	S-8	1/27/12	99.1	333-179221	
10.24A	Behance, Inc. 2012 Equity Incentive Plan*	S-8	1/23/13	99.1	333-186143	
10.24B	Amendment No. 1 to the Behance, Inc. 2012 Equity Incentive Plan*	S-8	1/23/13	99.2	333-186143	
10.25	Neolane 2008 Stock Option Plan*	S-8	8/27/13	99.1	333-190846	
10.26	2012 Neolane Stock Option Plan for The United States*	S-8	8/27/13	99.2	333-190846	
10.27	Description of 2013 Director Compensation*	10-K	1/21/14	10.80	000-15175	
10.28	Description of 2014 Director Compensation*	10-K	1/21/14	10.81	000-15175	
10.29	Description of 2015 Director Compensation*	10-K	1/20/15	10.52	000-15175	
10.30	Description of 2016 Director Compensation*	10-K	1/19/16	10.32	000-15175	
10.31	Description of 2017 Director Compensation*	10-K	1/20/17	10.32	000-15175	
10.32A	Aviary, Inc. 2008 Stock Plan, as amended*	S-8	9/26/14	99.1	333-198973	
10.32B	Form of Stock Option Grant Notice and Award Agreement pursuant to the Aviary, Inc. 2008 Stock Plan (Installment Vesting)*	S-8	9/26/14	99.2	333-198973	
10.32C	Form of Stock Option Grant Notice and Award Agreement pursuant to the Aviary, Inc. 2008 Stock Plan (Installment	S-8	9/26/14	99.3	333-198973	

Vesting, Non- U.S.)*

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Exhibit Number	Exhibit Description	Incorporated by Reference** Form	Filing Date	Exhibit Number	SEC File No.	Filed Herewith
10.33	Adobe Systems Incorporated 2014 Executive Severance Plan in the Event of a Change of Control*	8-K	12/11/14	10.1	000-15175	
10.34	Picasso Acquisition Holding 1, Inc. 2012 Stock Option and Grant Plan	S-8	3/13/15	99.1	333-202732	
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	XBRL Instance					X
101.SCH	XBRL Taxonomy Extension Schema					X
101.CAL	XBRL Taxonomy Extension Calculation					X
101.LAB	XBRL Taxonomy Extension Labels					X
101.PRE	XBRL Taxonomy Extension Presentation					X
101.DEF	XBRL Taxonomy Extension Definition					X

* Compensatory plan or arrangement.

** References to Exhibits 10.9 through 10.11 are to filings made by Omniture, Inc.

† 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 Systems Incorporated 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.