WYNN RESORTS LTD
Form 10-K/A
April 30, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period to

Commission File No. 000-50028

WYNN RESORTS, LIMITED

(Exact name of registrant as specified in its charter)

NEVADA	**46-0484987**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

3131 Las Vegas Boulevard South Las Vegas,

Nevada 89109

(Address of principal executive offices) (Zip Code)

(702) 770-7555

(Registrant s telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 par value	**Nasdaq Global Select Market**

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

None

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

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

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 ¨

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 ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

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

The aggregate market value of the registrant s voting and non-voting common stock held by non-affiliates based on the closing price as reported on the NASDAQ Global Select Market on June 30, 2011 was approximately $11 billion.

As of April 23, 2012, 100,512,724 shares of the registrant s Common Stock, $.01 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

None.

TABLE OF CONTENTS

Table of Contents

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (the Amendment) amends the Annual Report on Form 10-K of Wynn Resorts, Limited for the fiscal year ended December 31, 2011, originally filed with the Securities and Exchange Commission (SEC) on February 29, 2012 (the Original Filing). We are filing this Amendment solely to amend and restate Part III of the Original Filing to include the information not previously included in Part III of the Original Filing because we no longer intend to file our definitive proxy statement within 120 days of the end of our fiscal year ended December 31, 2011. The cover page of this Amendment now reflects we are not incorporating Part III disclosures by reference to our proxy statement. In connection with the filing of this Amendment and pursuant to the rules of the SEC, we are including with this Amendment certifications by our principal executive officer and principal financial officer. Accordingly, Item 15 of Part IV has also been amended to reflect the filing of these additional certifications.

Except as described above, no other changes have been made to the Original Filing. The Original Filing continues to speak as of the date of the Original Filing, and we have not updated the disclosures contained therein to reflect any events which occurred at a date subsequent to the filing of the Original Filing other than as expressly indicated in this Amendment. In this Amendment, unless the context indicates otherwise, the terms Company , we, us, and our refer to Wynn Resorts, Limited. Other defined terms used in this Amendment but not defined herein shall have the meaning specified for such terms in the Original Filing.

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Director Biographies and Qualifications

The Company s Second Amended and Restated Articles of Incorporation (the Articles) and Fourth Amended and Restated Bylaws, as amended (the Bylaws), require that the number of directors on the Board of Directors be not less than one nor more than thirteen. Presently, the Board of Directors is set at twelve directors and is divided into three classes. Class I includes Linda Chen, John A. Moran, Marc D. Schorr and Elaine P. Wynn, whose terms expire in 2012. Class II consists of Stephen A. Wynn, Ray R. Irani, Alvin V. Shoemaker and D. Boone Wayson, whose terms expire in 2013. Class III consists of Russell Goldsmith, Robert J. Miller, Kazuo Okada, and Allan Zeman, whose terms expire in 2014. At each annual meeting of stockholders, the terms of one class of directors expire. Each director is elected to the Board of Directors for a term of three years and until his or her successor is elected and qualified.

Set forth below is biographical information regarding the directors and key skills and qualifications of our directors supporting their service as a director, in light of the Company s business and structure.

Class I Directors (Terms expire at the 2012 Annual Meeting of Stockholders)

Linda Chen. Ms. Chen, 45, has served as a Director of the Company since October 2007. Ms. Chen has been an Executive Director and Chief Operating Officer of Wynn Macau, Limited, a majority owned subsidiary of the Company, since September 2009. Ms. Chen serves as the President of Wynn International Marketing, Limited, a wholly-owned indirect subsidiary of the Company, a position she has held since January 2005. In addition, Ms. Chen is the Chief Operating Officer of Wynn Resorts (Macau), S.A., a role she has served in since June 2002. Ms. Chen is responsible for the marketing and strategic development of Wynn Macau. Ms. Chen is a member of the Nanjing Committee of the Chinese People s Political Consultative Conference (Macau).

Ms. Chen s insight and experience as the primary marketing executive for the Company contribute to the Board s ability to evaluate and make informed decisions that affect our global operations. Ms. Chen s experience becomes ever more important to the Company and its stockholders as the percentage of the Company s operational revenue and profits generated from its Macau operations increases.

John A. Moran. Mr. Moran, 80, has served as a director of the Company since October 2002. Mr. Moran is the retired Chairman of the Dyson-Kissner-Moran Corporation. Dyson-Kissner-Moran is a private holding company headquartered in New York City whose international portfolio of companies in over 20 countries has included business engaged in manufacturing, retailing, distribution, financial services, and real estate development. During his business career, Mr. Moran has served as a Director of over 30 corporations and philanthropic organizations. Mr. Moran serves as a Director of the John A. Moran Eye Center at the University of Utah; a Trustee of the George and Barbara Bush Endowment for Innovative Cancer Research at M.D. Anderson Cancer Center at the University of Texas; and an Honorary Trustee of the Metropolitan Museum of Art in New York City.

With his extensive knowledge of the Company s background, development and financing arrangements and his experience in the financial and equity markets, Mr. Moran provides the Board insight that is important to its oversight of the Company s financial structure. His guidance in the evaluation of capital deployment and management of the Company s balance sheet is especially valuable. In addition, he brings to the Board experience in political and public policy matters.

Marc D. Schorr. Mr. Schorr, 64, has served as a Director of the Company since July 2010. He also serves as Chief Operating Officer of the Company, a position he has held since June 2002. Mr. Schorr has served as a Non-Executive Director of Wynn Macau, Limited since September 2009 and is also an officer of several of the Company s other subsidiaries. Mr. Schorr has over 32 years of experience in the casino gaming industry.

Table of Contents

When electing Mr. Schorr to the Board of Directors, the electing directors considered his extensive operating experience, particularly his marketing expertise and ability to effectively manage operating costs. These qualifications have been particularly valuable to the Company as we have navigated the difficult economic environment of the past several years. In addition, Mr. Schorr brings first hand operational knowledge to the Board, enhancing their ability to oversee the operations of the Company.

Elaine P. Wynn. Ms. Wynn, 70, has served as a Director of the Company since October 2002. Ms. Wynn has been a strong advocate of programs and services for children at risk of dropping out of school. Since 1995 she has co-chaired the Greater Las Vegas After-School All Stars, providing thousands of children with high quality educational, recreational and cultural after-school programs. A past member of the Executive Board of the Consortium for Policy Research in Education, Ms. Wynn has served since 1997 on the State of Nevada Council to Establish Academic Standards. She also chaired the UNLV Foundation, (the private fundraising arm of that institution) for eight years. Most recently, Ms. Wynn was appointed by Nevada s governor to co-chair a Blue Ribbon Education Reform Task Force that resulted in the enactment of ambitious new reform legislation. She is the founding chairman of Communities in Schools of Nevada and was appointed in 2009 as Chairman of the national board of Communities in Schools, the oldest, most successful stay-in-school organization in America. In 2010, Elaine Wynn was appointed to the Kennedy Center for the Performing Arts Board of Trustees and the Library of Congress Trust Fund Board.

Ms. Wynn s philanthropic and community efforts and her history of assisting the Company on such matters is important to the Board s strategic vision and continued development of the Wynn brand.

Class II Directors (Terms expire at the 2013 Annual Meeting of Stockholders)

Stephen A. Wynn. Mr. Wynn, 70, has served as Chairman and Chief Executive Officer of the Company since June 2002. Mr. Wynn has been an Executive Director, the Chairman of the Board of Directors, Chief Executive Officer and President of Wynn Macau, Limited, a majority owned subsidiary of the Company since September 2009. Mr. Wynn has also served as Director, Chairman and Chief Executive Officer of Wynn Resorts (Macau) since October 2001. From April 2000 to September 2002, Mr. Wynn was the managing member of Valvino Lamore, LLC, the predecessor and a current wholly owned subsidiary of Wynn Resorts, Limited. Mr. Wynn also serves as an officer and/or director of several subsidiaries of Wynn Resorts, Limited. Mr. Wynn served as Chairman, President and Chief Executive Officer of Mirage Resorts, Inc. and its predecessor, Golden Nugget Inc., between 1973 and 2000. Mr. Wynn developed and opened The Mirage, Treasure Island and Bellagio in 1989, 1993 and 1998, respectively. Mr. Wynn has also served as an outside director of Monaco QD International Hotels and Resort Management since December 2010.

Mr. Wynn is the founder and creative and organizational force of Wynn Resorts. Mr. Wynn s 40 years of experience in the industry has contributed to his brand name status as the preeminent designer, developer and operator of destination casino resorts. Mr. Wynn s involvement with our casino resorts provides a distinct advantage over other gaming enterprises. As founder, Chairman and Chief Executive Officer, he has a unique perspective into the operations and vision for the Company.

Dr. Ray R. Irani. Dr. Ray R. Irani, 77, has served as a Director of the Company since October 2007. Dr. Irani became Executive Chairman of Occidental Petroleum Corporation, an international oil and gas exploration and production company as well as a major North American chemical manufacturer, in May 2011 after serving as Chairman and Chief Executive Officer from 1990 to 2011. He has been a director of Occidental since 1984 and served as President and Chief Operating Officer of Occidental from 1984 to 1990. Dr. Irani is a director of the American Petroleum Institute and serves on the Board of Directors of The TCW Group. He is a member of the American Chemical Society, the American Institute of Chemists, Inc., the California Business Roundtable, The Conference Board, the Council on Foreign Relations, the National Association of Manufacturers, the National Committee on United States-China Relations, the National Petroleum Council, Sigma Xi The Scientific Research Society and the U.S.-Saudi Arabian Business Council. He is the U.S.

Chairman of the U.S.-U.A.E. Business Council. Dr. Irani is a Trustee of the University of Southern California, Co-Chair of the Board of the American University of Beirut and a member of the Lebanese American University Board of Trustees. He is a member of the Board of Governors of Town Hall Los Angeles and the Los Angeles World Affairs Council, and serves on the Advisory Boards of RAND s Center for Middle East Public Policy and the Atlantic Council s Rafik Hariri Center for the Middle East.

After the opening of Wynn Macau in 2006, the Company sought additional representation on the Board by executives with experience in managing international operations and with keen insight into issues relevant to companies with global operations, which are of increasing importance to the Company. Dr. Irani was elected to the Board of Directors in 2007 as a result of that extensive international experience gained from serving as the long time Chairman and Chief Executive Officer of Occidental Petroleum Corporation, an international oil and gas exploration and production company with operations throughout the world.

Alvin V. Shoemaker. Mr. Shoemaker, 73, has served as a Director of the Company since December 2002. Mr. Shoemaker was the Chairman of the Board of First Boston Inc. and First Boston Corp. from April 1983 until his retirement in January 1989, at the time of its sale to Credit Suisse Bank. Mr. Shoemaker currently serves as a member of the board of directors of Frontier Bank, Western Community Bank Shares, and Huntsman Chemical Co.

Mr. Shoemaker has served on the Board of Directors of the Company since its formation in 2002. With his extensive knowledge of the Company s history, development and financing arrangements and his deep experience as a financial executive serving as the Chairman of First Boston, Mr. Shoemaker contributes to the Board s oversight of the Company s financial matters. Mr. Shoemaker s experience in this respect has been especially valuable to the Company during the recent financial crisis, and enables him to provide strong leadership.

D. Boone Wayson. Mr. Wayson, 59, has served as a Director of the Company since August 2003. Mr. Wayson has been a principal of Wayson s Properties, Incorporated, a real estate development and holding company, since 1970. He also serves as an officer and/or director of other real estate and business ventures. From 2000 through May 2003, Mr. Wayson served as a member of the board of directors and audit committee of MGM Mirage.

Mr. Wayson s experience in the real estate and gaming businesses contributes to the Board s ability to assess and oversee these critical aspects of the Company s business and to provide insights to the Company s operations. Mr. Wayson has extensive operational experience in the casino finance and marketing areas beginning as casino controller and ultimately managing a resort casino property in Atlantic City, N.J. The Board is benefited by Mr. Wayson s first hand experience in operations and utilizes his knowledge of the business, especially in the finance and marketing areas, to identify, manage and monitor risk.

Class III Directors (Terms expire at the 2014 Annual Meeting of Stockholders)

Russell Goldsmith. Mr. Goldsmith, 62, has served as a Director of the Company since May 2008. Mr. Goldsmith serves as Chairman and Chief Executive Officer of City National Bank, a provider of a wide range of banking, investing and trust services. Additionally, he serves as President and Chief Executive Officer of its publicly held parent company, City National Corporation, which is listed on the New York Stock Exchange (CYN) and headquartered in Los Angeles, California. He has been a director of both the bank and its parent company since 1978. From 2008 2011, Mr. Goldsmith was a member of the Federal Reserve board s 12-member Federal Advisory Council, representing the Twelfth Federal Reserve District. Mr. Goldsmith chairs the Mid-Size Bank Coalition of America, which is composed of 25 mid-sized banks in 41 states and the District of Columbia. He also chairs the Los Angeles Coalition for the Economy & Jobs, an independent organization of leading economic stakeholders representing business, labor, higher education and the nonprofit sectors. Mr. Goldsmith also serves on the board of trustees of the Harvard-Westlake School and is a member of the Council on Foreign Relations.

Table of Contents

Mr. Goldsmith brings current insight and deep financial expertise to our Board. His recent service on the Federal Reserve Board s Advisory Council has brought additional perspective on the macroeconomic and public policy issues facing our Company.

Robert J. Miller. Governor Miller, 67, has served as a Director of the Company since October 2002 and as the Chairman of Wynn Las Vegas Compliance Committee and as the Company s Compliance Director. In June 2010, he founded Robert J. Miller Consulting, a company that provides assistance in establishing relationships with and building partnerships between private and government entities on the local, state, national and international level. Governor Miller also currently serves as a Senior Advisor to Dutko Worldwide, a multidisciplinary governmental affairs strategy and management firm. Governor Miller was a partner of the Nevada law firm of Jones Vargas from 2000 2005. He was a partner in Miller & Behar Strategies from January 2003 to August 2007 and has been a partner in Nevada Rose, LLC since November 2004. From January 1989 until January 1999, Governor Miller served as Governor of the State of Nevada, and, from 1987 to 1989, he served as Lieutenant Governor of the State of Nevada. Governor Miller also serves as a director at International Game Technology (IGT).

Governor Miller s extensive experience in regulatory and legal compliance matters and in Nevada and federal government and politics brings unique expertise and insight into state regulatory and public policy issues that directly impact the Company s operations. In addition, his legal background and service as Chair of the Company s Compliance Committee and as Compliance Director is an important element to maintaining our regulatory structure and probity. Governor Miller s experience was especially valuable to the Company in his role as chairman of the Compliance Committee which commissioned the independent investigation that led to the determination of unsuitability and eventual redemption of shares owned by Aruze USA, Inc.

Kazuo Okada. Mr. Okada, 69, has served as a Director of the Company since October 2002. Mr. Okada also served as a Non-Executive Director of Wynn Macau, Limited, a majority owned subsidiary of the Company from September 2009 until his removal in February of 2012. In 1969, Mr. Okada founded Universal Lease Co. Ltd., which, in 1998, became Aruze Corp., a company listed on the Japanese Association of Securities Dealers Automated Quotation Securities Exchange. In November 2009, Aruze Corp. changed its name to Universal Entertainment Corporation, which is a Japanese manufacturer of pachislot and pachinko machines, amusement machines, and video games for domestic sales. Mr. Okada currently serves as Director and Chairman of the Board of Universal Entertainment Corporation and as Director, President, Secretary and Treasurer of Aruze USA, Inc., which is a wholly owned subsidiary of Universal Entertainment Corporation and prior to the redemption described below owned approximately 19.7% of Wynn Resorts, Limited. In 1983, Mr. Okada also founded Universal Distributing of Nevada, Inc., which changed its name to Aruze Gaming America, Inc. in 2005. Aruze Gaming America, Inc. is a manufacturer and distributor of gaming machines and devices in the United States and is expanding its sales business in Asia, Australia and South Africa. Mr. Okada currently serves as director, President, Secretary and Treasurer of Aruze Gaming America, Inc.

On February 18, 2012, the Company s Gaming Compliance Committee concluded a year-long investigation after receiving an independent report by Freeh, Sporkin & Sullivan, LLP (the Freeh Report) detailing, among other things, numerous prima facie violations of the U.S. Foreign Corrupt Practices Act by Aruze USA, Inc. (which at the time was a stockholder of the Company), Universal Entertainment Corporation, Aruze USA, Inc. s parent company, and Kazuo Okada, the majority shareholder of Universal Entertainment Corporation, who is also a member of our Board of Directors and was at the time a director of Wynn Macau, Limited.

Based on the Freeh Report, the Company s Board of Directors determined that Aruze USA, Inc., Universal Entertainment Corporation and Mr. Okada are unsuitable under Article VII of the Wynn Resorts articles of incorporation. The Board was unanimous (other than Mr. Okada) in its determination. The Board of Directors also requested that Mr. Okada resign as a director of the Company and recommended that Mr. Okada be removed as a member of the board of directors of Wynn Macau, Limited. On February 18, 2012, Mr. Okada was removed from the board of directors of Wynn Las Vegas Capital Corp., a wholly owned subsidiary of Wynn Resorts.

Table of Contents

Based on the Board of Directors finding of unsuitability, on February 18, 2012, Wynn Resorts redeemed Aruze USA, Inc. s 24,549,222 shares of the Company s common stock. For additional information on the share redemption, see Certain Relationships and Related Transactions; Share Redemption.

On February 19, 2012, the Company filed a complaint in the District Court of Clark County, Nevada against Mr. Okada, Aruze USA, Inc. and Universal Entertainment Corporation alleging breaches of fiduciary duty and related claims. On March 12, 2012, Aruze USA, Inc. and Universal Entertainment Corporation removed the action to the United States District Court for the District of Nevada. On that same date, Aruze USA, Inc. and Universal Entertainment Corporation filed an answer denying the claims and a counterclaim that purports to assert claims against the Company, each of the members of the Company s board (other than Mr. Okada) and a senior executive of the Company. Among other relief, the counterclaim seeks a declaration that the redemption of Aruze USA, Inc. s shares was void, an injunction restoring Aruze USA, Inc. s share ownership and damages in an unspecified amount. On March 29, 2012, the Company filed a motion to remand the action to state court and to request an extension to answer. The motion to remand is pending and the request for extension to answer was granted on March 30, 2012, giving the Company until May 21, 2012 to answer the counterclaim.

Allan Zeman. Dr. Zeman, 63, has served as a Director of the Company since October 2002. He is also Vice Chairman and has served as a member of the Board of Directors of Wynn Macau, Limited, a majority owned subsidiary of the Company, since September 2009. Dr. Zeman founded The Colby International Group in 1975 to source and export fashion apparel to North America. In late 2000, The Colby International Group merged with Li & Fung Limited. Dr. Zeman is the Chairman of Lan Kwai Fong Holdings Limited, a company engaged in property investment and development in Hong Kong since July 1996. He is also the owner of Paradise Properties Group, a property developer in Thailand. Dr. Zeman is also Chairman of Ocean Park, a major theme park in Hong Kong. Dr. Zeman is Vice Patron of Hong Kong Community Chest and serves as a director of the Star Ferry Company, Limited. Dr. Zeman also serves as an independent non-executive director of Pacific Century Premium Developments Limited, Sino Land Company Limited and Tsim Sha Tsui Properties Limited, all of which are listed on the Hong Kong Stock Exchange. Dr. Zeman is a member of the Food Business Task Force for Business Facilitation Advisory Committee, the Committee on the Commission on Strategic Development, the West Kowloon Cultural District Authority (WKCDA), the Consultation Panel of the WKCDA, WKCDA Development Committee, WKCDA Investment Committee, and WKCDA Performing Arts Committee (of which Dr. Zeman is the Chairman). In 2001, Dr. Zeman joined the Richard Ivey School of Business Asian Advisory Board. In 2001, Dr. Zeman was appointed a Justice of the Peace. He was awarded the Gold Bauhinia Star in 2004 and the Grand Bauhinia Medal in 2011.

Mr. Zeman, a Hong Kong citizen and successful Hong Kong entrepreneur, has been a guiding force in the development of our Macau operations and the continued operation and strategic focus of Wynn Macau. His personal business experience in China and extensive knowledge of the Company s history, development and marketing strategy in Asia contribute to the Board s oversight of these aspects of the Company s operations.

Executive Officers and Key Management

The following table sets forth the executive officers and certain key management personnel of the Company and certain of its subsidiaries as of April 30, 2012. Executive officers are appointed by the Board of Directors and serve at the discretion of the Board of Directors, subject to applicable employment agreements.

Name	Age	Position
Stephen A. Wynn	70	Chairman of the Board and Chief Executive Officer
Linda Chen	45	President, Wynn International Marketing, Ltd. and Director
Marc D. Schorr	64	Chief Operating Officer and Director
John Strzemp	60	Executive Vice President-Chief Administrative Officer
Matt Maddox	36	Chief Financial Officer and Treasurer
Kim Sinatra	51	General Counsel and Secretary
Ian M. Coughlan	53	President, Wynn Macau
Marilyn Spiegel	59	President, Wynn Las Vegas, LLC
Scott Peterson	45	Senior Vice President and Chief Financial Officer, Wynn Las Vegas, LLC
Robert Gansmo	42	Senior Vice President and Chief Financial Officer, Wynn Resorts (Macau), S.A.

Set forth below is certain information regarding the non-director executive officers and certain key management personnel of the Company.

John Strzemp. Mr. Strzemp serves as Executive Vice President and Chief Administrative Officer of the Company. Prior to his promotion in March 2008, Mr. Strzemp served as Executive Vice President and Chief Financial Officer of the Company, positions he held since September 2002. Mr. Strzemp served as the Company s Treasurer from March 2003 to March 2006.

Matt Maddox. Mr. Maddox serves as the Company s Chief Financial Officer and Treasurer. Prior to his promotion in March 2008, Mr. Maddox served as the Company s Senior Vice President of Business Development and Treasurer, positions he held since January 2007 and May 2006, respectively. From September 2005 to December 31, 2006, Mr. Maddox served as the Senior Vice President of Business Development for Wynn Las Vegas, LLC. From March 2003 to September 2005, Mr. Maddox was the Chief Financial Officer of Wynn Resorts (Macau), S.A. From May 2002 through March 2003, Mr. Maddox was the Company s Treasurer and Vice President Investor Relations. Mr. Maddox also serves as an officer of several of the Company s subsidiaries. Prior to joining Wynn Resorts in 2002, Mr. Maddox served as Director of Finance, Executive Director of Finance and Vice President of Finance for Caesars Entertainment, Inc. (formerly Park Place Entertainment, Inc.). Before joining Park Place Entertainment, Mr. Maddox worked as an investment banker for Bank of America Securities in the Mergers and Acquisitions Department.

Kim Sinatra. Ms. Sinatra is the General Counsel and Secretary of the Company, a position she has held since February 2006. She joined the company in January 2004 as Senior Vice President and General Counsel of its development activities. She also serves as an officer of several of the Company s subsidiaries. From 2000 to 2003 Ms. Sinatra served as Executive Vice President and Chief Legal Officer of Caesars Entertainment, Inc. (formerly Park Place Entertainment, Inc.). She has also served as General Counsel for The Griffin Group, Inc., Merv Griffin s investment management company, and as a partner in the New York office of the law firm Gibson, Dunn & Crutcher LLP.

Ian Michael Coughlan. Mr. Coughlan has been an Executive Director of Wynn Macau, Limited since September 2009. Mr. Coughlan is also the President of Wynn Resorts (Macau) S.A., a position he has held since July 2007. In this role, he is responsible for the operation of Wynn Macau and Encore at Wynn Macau. Prior to becoming President of Wynn Macau, Mr. Coughlan was Director of Hotel Operations Worldwide for Wynn Resorts, Limited. Mr. Coughlan has over 30 years of hospitality experience with leading hotels across Asia, Europe and the United States. Before joining Wynn Resorts, Limited, he spent 10 years with The Peninsula Group, including posts as General Manager of The Peninsula Hong Kong from September 2004 to January 2007, and General Manager of The Peninsula Bangkok from September 1999 to August 2004.

Table of Contents

Marilyn Spiegel. Mrs. Spiegel is the President of Wynn Las Vegas, LLC, owner and operator of Wynn Las Vegas and Encore Las Vegas where she oversees the day-to-day operations of the properties. She assumed this position in December 2010. From January 2004 to November 2010 Mrs. Spiegel was the General Manager and Regional President of five Caesars Entertainment Las Vegas Properties including most recently Bally s, Paris and Planet Hollywood. Prior to joining the Company, Spiegel held various executive positions with Caesars Entertainment (formerly Harrah s), including Senior Vice President and General Manager of Harrah s Las Vegas and the Rio All Suite Hotel and Casino, Senior Vice President of human resources, Senior Vice President and general manager of Harrah s Shreveport Hotel & Casino in Louisiana and Vice President of Human Resources for the company s Southern Nevada operations. Mrs. Spiegel began working for Harrah s Entertainment, Inc. in 1988. Mrs. Spiegel is a member of the Las Vegas Visitors and Convention Bureau board of directors.

Scott Peterson. Mr. Peterson is the Senior Vice President and Chief Financial Officer of Wynn Las Vegas, LLC, a position he has held since April 2009. In addition to overseeing the finance and accounting areas, Mr. Peterson is responsible for the operations of the cage, credit, collections, gaming and non-gaming revenue audit, purchasing and the warehouse/receiving departments. From June 2005 to April 2009, Mr. Peterson was the Vice President and Chief Financial Officer for Wynn Resorts (Macau), S.A. From September 2002 to June 2005, Mr. Peterson was the Vice President of Finance and Treasurer of Wynn Las Vegas, LLC and from December 2000 to September 2002, Mr. Peterson was Assistant Vice President of Finance of Wynn Resorts Holdings, LLC.

Robert Gansmo. Mr. Gansmo is the Senior Vice President Chief Financial Officer of Wynn Resorts (Macau) S.A., a position he has held since April 2009. Prior to taking this position, Mr. Gansmo was the Director Finance of Wynn Resorts (Macau) S.A., a position he assumed in January 2007. Mr. Gansmo is responsible for the management and administration of Wynn Resorts (Macau) S.A. s finance division. Before joining Wynn Resorts (Macau) S.A., Mr. Gansmo worked at Wynn Resorts, Limited, where he served as the Director of Financial Reporting from November 2002. Prior to joining the Company, Mr. Gansmo practiced as a certified public accountant with firms in Las Vegas, Washington and California, including KPMG Peat Marwick, Arthur Andersen, and Deloitte and Touche.

Corporate Governance

The Board of Directors has adopted Corporate Governance Guidelines that provide a framework for the governance of the Company. The Nominating and Corporate Governance Committee reviews the Guidelines annually and recommends changes as appropriate to the Board of Directors for approval. The Board of Directors has also adopted written charters for its three standing committees (Audit, Compensation, and Nominating and Corporate Governance), as well as a Code of Business Conduct and Ethics, applicable to all directors, officers and employees. The Corporate Governance Guidelines, Board committee charters and codes of ethics are available under the heading Corporate Governance on the Company Information page of the Company s website at *http://www.wynnresorts.com*.

Meetings of the Board of Directors

The Board of Directors met eight times during 2011. During 2011, none of the members of the Board of Directors attended fewer than 75% of the total number of meetings of the Board of Directors and meetings of the committees on which they served. In addition, the independent directors met in executive session, without management present, at each regular meeting of the Board of Directors. Governor Miller acts as the presiding director and communicates necessary matters from the executive sessions to management.

Committees

The Board of Directors currently has three standing committees: the Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee. Each of these committees consists entirely of directors whom the Board of Directors has determined to be independent under the NASDAQ listing standards for audit committee members. The current membership and functions of each of the Board of Directors committees are listed below.

Director	Audit	Compensation	Nominating and Corporate Governance Committee
Russell Goldsmith	X	X	
Dr. Ray R. Irani		Chair	X
Robert J. Miller			Chair
John A. Moran		X	X
Alvin V. Shoemaker	X	X	
D. Boone Wayson	Chair	X	
Allan Zeman	X		X
Number of meetings during 2011	Eleven	Five	Four

In addition, Governor Miller serves as Chairman of the Company s Gaming Compliance Committee and as the Company s Compliance Director. The Gaming Compliance Committee is a committee comprised of Messrs. Miller, Schorr and Strzemp, and its purpose is to assist the Company in maintaining the highest level of regulatory compliance.

The Audit Committee

The Board of Directors, after review of each individual s employment experience and other relevant factors, has determined that Messrs. Wayson, Goldsmith, Shoemaker and Zeman are qualified as audit committee financial experts within the meaning of SEC regulations.

At each of its regular meetings, the Audit Committee meets with the Company s independent auditors, internal audit staff, management and legal counsel to discuss accounting principles, financial and accounting controls, the scope of the annual audit, internal controls, regulatory compliance and other matters. In addition to responsibilities discussed elsewhere in this Annual Report on Form 10-K/A, the functions of the Audit Committee also include the following:

- appointing, approving the compensation of, and oversight of the independent auditors;
- reviewing and discussing with the independent auditors and management the Company s earnings releases and quarterly and annual reports as filed with the SEC;
- reviewing the scope and results of the Company s internal auditing procedures and practices;
- overseeing the Company s compliance program with respect to legal and regulatory compliance, and the Company s policies and procedures for monitoring compliance; and
- meeting periodically with management to review the Company s major risk exposures and the steps management has taken to monitor and control such exposures.

The independent auditors have complete access to the Audit Committee without management present to discuss the results of their audits and their opinions on the adequacy of internal controls, quality of financial reporting and other accounting and auditing matters.

The Compensation Committee

The Compensation Committee s responsibilities in setting compensation of the Company s executives and directors include:

reviewing the goals and objectives of the Company s executive compensation plans;

reviewing the Company s executive compensation plans in light of the Company s goals and objectives with respect to such plans and, as appropriate, recommending that the Board adopt new plans or amend the existing plans;

annually evaluating the performance of the Chief Executive Officer of the Company, overseeing the evaluation of performance of the other officers of the Company and its operating subsidiaries, and setting compensation for the Chief Executive Officer, other named executive officers, and other members of our most senior management;

reviewing and approving equity awards and supervising administrative functions pursuant to the Company s equity plans;

reviewing and approving any employment agreement or any severance or termination agreement, between the Company (or any of its subsidiaries) and any officer, as well as any other employment agreement between the Company and any individual in which annual base salary exceeds $500,000, regardless of position involved; and

reviewing and recommending to the full Board the type and amount of compensation for Board and Committee service by non-management members of the Board.

In early 2010, the Committee completed a review of the Company s compensation policies and practices and determined, under the guidelines recently issued by the SEC, that such policies and practices are not reasonably likely to have a material adverse effect on the Company. Upon promulgation of final rules by the SEC, the Committee will adopt clawback provisions that comply with all applicable requirements.

The Nominating and Corporate Governance Committee

The functions of the Nominating and Corporate Governance Committee include the following:

identifying, screening and recommending candidates qualified to serve as directors of the Company taking into account the Company s current and planned business and the existing membership of the Board;

establishing procedures for evaluating the suitability of potential director nominees proposed by management or the stockholders;

recommending to the Board of Directors members to serve on committees of the Board of Directors;

reviewing and making recommendations regarding the composition of the Board of Directors;

developing and recommending to the Board of Directors a set of corporate governance principles applicable to the Company and overseeing corporate governance matters generally; and

overseeing the annual evaluation of the Board of Directors.

Nominating Process. The Nominating and Corporate Governance Committee will consider director candidates recommended by stockholders. In considering candidates submitted by stockholders, the Nominating and Corporate Governance Committee will take into consideration the Board s current size and composition, needs of the Board of Directors, including the skills and experience of existing directors, and the qualifications of the candidate. To have a candidate considered by the Nominating and Corporate Governance Committee, a stockholder must submit the recommendation in writing and must include the following information:

The name of the stockholder and evidence of the person s ownership of Company stock, including the number of shares owned and the length of time of ownership; and

The name of the candidate, the candidate s resume or a listing of his or her qualifications to be a director of the Company, and the person s consent to be named as a director if selected by the Nominating and Corporate Governance Committee and nominated by the Board of Directors.

The stockholder recommendation and information described above must be sent to the Corporate Secretary at 3131 Las Vegas Boulevard South, Las Vegas, Nevada 89109 and must be received by the Corporate Secretary not less than 120 days prior to the anniversary date of the Company s most recent annual meeting of stockholders.

Table of Contents

The Nominating and Corporate Governance Committee seeks to have the Board of Directors represent a diversity of backgrounds and experience and assesses potential nominees in light of the Board s current size and composition. The Nominating and Corporate Governance Committee believes that the minimum qualifications for serving as a director of the Company are that a nominee demonstrate, by significant accomplishment in his or her field, an ability to make a meaningful contribution to the Board of Directors oversight of the business and affairs of the Company and have a reputation for honest and ethical conduct in both his or her professional and personal activities. The Committee may from time to time develop and recommend additional criteria for identifying and evaluating director candidates. In addition, the Nominating and Corporate Governance Committee examines a candidate s other commitments, potential conflicts of interest and independence from management and the Company.

The Nominating and Corporate Governance Committee implements its policy with regards to considering diversity by annually reviewing with the Board the Board s composition as a whole and recommending, if necessary, measures to be taken so that the Board reflects the appropriate balance of knowledge, depth and diversity of experience, and skills and expertise required for the Board as a whole. The Committee assesses the effectiveness of this policy by periodically reviewing the Board membership criteria with the Board. This assessment enables the Board to update the skills and experience it seeks in the Board as a whole, and in individual directors, as the Company s needs evolve and change over time.

The Nominating and Corporate Governance Committee identifies potential nominees by asking current directors and executive officers to notify the Committee if they become aware of persons meeting the criteria described above who might be available to serve on the Board of Directors. As described above, the Committee will also consider candidates recommended by stockholders.

If the Nominating and Corporate Governance Committee determines to pursue consideration of a person who has been identified as a potential candidate, the Committee may take any or all of the following steps: collect and review publicly available information regarding the person, contact the person and request information from the candidate, conduct one or more interviews with the candidate, and contact one or more references provided by the candidate or other persons that may have greater first-hand knowledge of the candidate s accomplishments. The Committee s evaluation process takes into account the person s accomplishments and qualifications, including in comparison to any other candidates that the Committee might be considering, and does not vary based on whether or not a candidate is recommended by a stockholder.

Board Leadership

Mr. Wynn, the Company s founder, serves as the Chairman and Chief Executive Officer of the Company. The Board of Directors has determined that the combination of these roles held singularly by Mr. Wynn is in the best interest of all stockholders. The Board believes that the issue of whether to combine or separate the offices of Chairman of the Board and Chief Executive Officer is part of the succession planning process and that it is in the best interests of the Company for the Board to make a determination whether to combine or separate the roles based upon the circumstances. The Board has given careful consideration to separating the roles of Chairman and Chief Executive Officer and has determined that the Company and its stockholders are best served by the current structure. Mr. Wynn s combined role promotes unified leadership and direction for the Board and executive management and allows for a single, clear focus for the Company s operational and strategic efforts.

The combined role of Mr. Wynn as both Chairman and Chief Executive Officer is balanced by the Company s governance structure and policies and controls. Seven of the twelve members of our Board of Directors satisfy the most stringent requirements of independence promulgated by NASDAQ for audit committee members, and the Audit, Compensation, and Nominating and Corporate Governance Committees are composed entirely of independent members of the Board. This structure encourages independent and effective oversight of the Company s operations and prudent management of risk. In addition, the Company is subject to stringent regulatory requirements and oversight, combining these internal controls with third party monitoring of the Company s operations.

Table of Contents

The independent members of the Company s Board of Directors meet separately in executive session at each regular meeting of the Board and also meet separately in executive session with each of the Company s auditors, Vice President of Internal Audit and General Counsel. The independent members of the Board have designated a presiding director for such sessions who is responsible for communicating to the Chief Executive Officer and senior management all concerns that arise during executive session. Governor Miller currently serves as the Presiding Director.

In addition, all Committee agendas and all agendas for meetings of the Board of Directors are provided in advance to all independent members of the Board. The members are encouraged to review the proposed agenda items and to add additional items of concern or interest. Members of the Board of Directors also have unimpeded access to Company management.

Mr. Wynn s compensation is established and reviewed by the Compensation Committee, all of whose members are independent. During 2011, the Compensation Committee engaged the services of an independent third party compensation consultant, Pay Governance, in its evaluation of the level of compensation and benefits of employment provided to Mr. Wynn.

For the reasons stated above and as a result of the structure, policies and procedures outlined above, and in light of the historical success of Mr. Wynn s leadership, the Board has concluded that the current Board leadership structure is in the best interest of the Company and its stockholders.

Risk Oversight

The Board of Directors has an active role in overseeing the Company s areas of risk. While the full Board has overall responsibility for risk oversight, the Board has assigned certain areas of risk primarily to designated Committees, which report back to the full Board. The Board regularly reviews information regarding the Company s risks relating to political, regulatory, construction, operations, succession planning, catastrophic events and general financial conditions. The Audit Committee is primarily responsible for the oversight of credit, related party, construction and general financial risks. The Compliance Committee primarily oversees risks relating to regulatory, security and political compliance. As discussed above, the Compensation Committee is primarily responsible for monitoring risks relating to the Company s compensation policies and practices to determine whether they create risks that may have a material adverse effect on the Company.

The Board, in consultation with management and the Company s outside auditors, has identified specific areas of risk including: regulatory compliance, legislative and political conditions, capital availability, liquidity and general financial conditions, gaming credit extension and collection, construction, catastrophic events and succession planning. The Board (as a whole and through Committees) and management have agreed upon a processes for management to identify, manage and mitigate these risks.

Throughout the year, the Board and the relevant Committees receive reports from management that include information regarding major risks and exposures facing the Company and the steps management has taken to monitor and control such risks and exposures. In addition, throughout the year, the Board and the relevant Committees dedicate a portion of their meetings to review and discuss specific risk topics in greater detail.

Stock Ownership Guidelines

In 2011, the Board adopted Stock Ownership Guidelines applicable to members of the Board of Directors and senior corporate officers. The Guidelines require that members of the Board achieve ownership of an amount of common stock of the Company for which the fair market value equals or exceed three times such director s annual cash retainer. For the Company s Chief Executive Officer, the fair market value of common stock owned should equal or exceed five times base salary and for the Chief Operating Officer, Chief Financial Officer and any Executive Vice President, three times base salary.

Ownership requirements should be met for executives within three years of appointment to office and for directors within five years of election to the Board, with vested options and all restricted stock grants counted toward satisfaction of ownership guidelines. Any failure to meet guidelines will be referred to the Nominating and Corporate Governance Committee for consideration.

Currently, all members of the Board and executives satisfy the guidelines.

Hedging Policy

Our directors, executive officers and employees are prohibited from hedging their ownership of our stock, including purchasing Company stock on margin, selling Company stock short, buying or selling puts or calls or other derivative instruments related to Company stock.

Stockholder Communications with Directors

The Board of Directors has established a process to receive communications from stockholders. This process is described under Corporate Governance on the Company Information page of the Company s website at *http://www.wynnresorts.com.* Stockholders may contact any member or all members of the Board of Directors, any committee of the Board of Directors or the chair of any committee by mail. Correspondence should be addressed to the appropriate individual by either name or title. All such correspondence should be sent c/o Corporate Secretary at 3131 Las Vegas Boulevard South, Las Vegas, Nevada 89109.

All communications received as set forth in the preceding paragraph will be opened by the office of our General Counsel for the purpose of assessing the nature of the communications. With the exception of advertising, promotions of a product or service, and patently offensive material, communications will be forwarded promptly to the addressee. In the case of communications addressed to more than one director, the General Counsel s office will make sufficient copies of the contents to send to each addressee.

Stockholder Meetings

It is Company policy that each of our directors is invited and encouraged to attend the annual meeting. All of our directors attended the 2011 Annual Meeting.

Compensation Committee Interlocks and Insider Participation

The members of the Compensation Committee are appointed by the Board of Directors each year. The members of the Compensation Committee serving in 2011 were Messrs. Goldsmith, Irani, Moran, Shoemaker and Wayson. No member of the Compensation Committee is, or was formerly, one of our officers or employees. No interlocking relationship exists between the Board of Directors or Compensation Committee and the board of directors or compensation committee of any other company, nor has any interlocking relationship existed in the past.

Code of Business Conduct and Ethics

As stated above, as part of the Company s commitment to integrity, the Board of Directors has adopted a Code of Business Conduct and Ethics applicable to all directors, officers and employees of the Company and its subsidiaries. This Code is periodically reviewed by the Board of Directors. The most recent update, dated November 1, 2011, included clarifications and revisions in presentation and is available on our website. In the event we determine to amend or waive certain provisions of this code of ethics, we will disclose such amendments or waivers under the heading Corporate Governance on the Company information page of our website at http://www.wynnresorts.com or as otherwise required by the NASDAQ listing standards. During 2011, all of our directors, except Mr. Okada, acknowledged in writing their compliance with the Company s Code of Business Conduct.

Table of Contents

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company s executive officers and directors and persons who own more than 10% of the Company s common stock to file reports of ownership on Forms 3, 4 and 5 with the SEC. Executive officers, directors and 10% stockholders are also required to furnish the Company with copies of all Forms 3, 4 and 5 they file. Based solely on the Company s review of the copies of such forms it has received, the Company believes that all its executive officers, directors and greater than 10% beneficial owners complied with all the filing requirements applicable to them with respect to transactions during 2011, except that one report covering two stock option exercises by Ms. Chen was filed after the deadline.

Item 11. Executive Compensation

2011 DIRECTOR COMPENSATION

The table below summarizes the total compensation awarded to, earned by or paid to each of the non-employee directors for the fiscal year ended December 31, 2011.

Name	Fees Earned or Paid in Cash ($)	Option Awards ($) (1)(3)	All Other Compensation ($)(4)	Total ($)
Russell Goldsmith	$ 121,500	$ 173,912	$ 16,250	$ 311,662
Dr. Ray R. Irani	$ 118,500	$ 173,912	$ 32,500	$ 324,912
Robert J. Miller(2)	$ 172,000	$ 173,912	$ 32,500	$ 378,412
John A. Moran	$ 106,500	$ 173,912	$ 32,500	$ 312,912
Kazuo Okada	$ 72,000	$	$	$ 72,000
Alvin V. Shoemaker	$ 123,000	$ 173,912	$ 32,500	$ 329,412
D. Boone Wayson	$ 136,500	$ 173,912	$ 32,500	$ 342,912
Elaine P. Wynn	$ 70,500	$	$	$ 70,500
Allan Zeman	$ 121,500	$ 173,912	$ 32,500	$ 327,912

(1) The amounts set forth in this column reflect the aggregate grant date fair value of 3,600 stock option awards granted to each non-employee director, other than Mr. Okada and Elaine P. Wynn, on May 16, 2011, computed in accordance with accounting standards for stock-based compensation. See Note 14 to our Consolidated Financial Statements in the Original Filing for assumptions used in computing fair value.

(2) Governor Miller, as a member of the Board of Directors, receives a $50,000 annual retainer for his service as the Chairman of the Company s Gaming Compliance Committee and a $20,000 annual retainer for his service as the Company s Compliance Director.

(3) The aggregate number of outstanding option awards for each director at December 31, 2011 is as follows: Mr. Goldsmith 27,600, Dr. Irani and Governor Miller 28,600 each, Messrs. Moran, Shoemaker and Wayson 48,600 each and Mr. Zeman 38,600. The aggregate number of outstanding stock awards for each director at December 31, 2011 is as follows: Mr. Goldsmith 2,500, and Messrs. Irani, Moran, Shoemaker, Wayson and Zeman 5,000 each. Mr. Okada and Elaine P. Wynn, who each are greater than five percent beneficial owners of the Company s common stock, have not previously been granted equity awards for their service as directors.

(4) All Other Compensation consists of cash dividends accrued on nonvested stock, which is paid if and when the stock vests. Dividends that are accrued on nonvested stock are reported as compensation because the value of dividends was not previously reflected in the accounting expense for these awards when they were granted, as the Company did not regularly pay dividends at that time.

Directors who are not employees of the Company currently receive a monthly fee of $5,000 for services as a director. Directors who serve on the Compensation Committee or the Nominating/Governance Committee receive an additional monthly fee of $1,000 per committee ($2,000 for committee chairmen). Directors who serve on the Audit Committee receive an additional monthly fee of $1,250 ($2,500 for the Chairman). Each non-employee director also receives a $1,500 meeting fee for each board or committee meeting he or she attends. Directors are also awarded annual equity participation in the form of stock options or restricted stock determined annually at the May meeting of the Board of Directors, which for 2011 consisted of a grant of 3,600 stock options. All directors are provided complimentary room, food and beverage privileges at our resorts and are reimbursed for any other out of pocket expenses related to attendance at meetings. Directors from time to time may receive other benefits, although the aggregate incremental cost of any such benefits and perquisites did not exceed $10,000 for any director in 2011. The Company does not provide non-equity incentive plan awards or deferred compensation or retirement plans for non-employee directors.

COMPENSATION DISCUSSION AND ANALYSIS

This section explains the Company s executive compensation program as it relates to the following named executive officers whose compensation information is presented in the tables following this discussion in accordance with SEC rules:

Stephen A. Wynn	Chairman and Chief Executive Officer
Matt Maddox	Chief Financial Officer and Treasurer
Marc D. Schorr	Chief Operating Officer
Linda Chen	President of Wynn International Marketing
Kim Sinatra	General Counsel and Secretary

The Compensation Committee of the Board of Directors, or the Committee, has responsibility for establishing, developing and administering our executive compensation program.

Executive Summary

Wynn Resorts completed another year of outstanding performance in 2011, posting record net revenues, operating income, net income, earnings per share and EBITDA. Wynn Resorts set a Company record in 2011 with $1.6 billion in Adjusted Property EBITDA, up 40.7% from 2010. The Company did not achieve this Adjusted Property EBITDA growth through risky balance sheet expansion. Instead, we achieved these Adjusted Property EBITDA results during a period when we also reduced our debt from $4.3 billion in 2008 to $3.2 billion in 2011.

	2011	2010	Increase
Net Revenues ($ millions)	$ 5,269.8	$ 4,184.7	25.9%
Operating Income ($ millions)	$ 1,008.2	$ 625.3	61.3%
Net Income ($ millions)	$ 825.1	$ 316.6	160.6%
Diluted EPS	$ 4.88	$ 1.29	278.3%
Adjusted Property EBITDA ($ millions)	$ 1,635.3	$ 1,163.0	40.6%

The operating and balance sheet management success has contributed to significant returns for Wynn Resorts stockholders. Our total stockholder return was 12.3% for this past year, 49.2% over the past 5 years and 1,048% since our inception in 2002. Thus, $100 invested in Wynn Resorts at its inception would be worth $1,148 at the end of 2011. This performance for stockholders is unmatched in the gaming and resort industry and far exceeds the results of the S&P 500 during this period.

Table of Contents

The following graph illustrates the compound average annual growth rate of share price growth adjusted for dividends and splits for Wynn Resorts, Las Vegas Sands, MGM Resorts International, a Gaming industry index (Las Vegas Sands, MGM, Crown, Penn National, Melco Crown, and Boyd, weighted by current market capitalization) and the S&P 500. The Compounded Annual Growth Rate (CAGR) for Las Vegas Sands (12/16/2004), Melco Crown (12/19/2006), and Crown Limited (3/25/2008) were measured from the date of their initial public offerings and the CAGR for all others was measured from the October 25, 2002, initial public offering of Wynn Resorts.

(1) Source: Standard & Poor s Capital IQ.

At the formation of our Company, we set out to develop and operate the premier casino resort in each jurisdiction in which we operate, and to develop and expand the Wynn brand while delivering successful operating and financial performance. Today the Wynn brand has become synonymous with luxury in the gaming industry. Our Las Vegas resort and our Macau resort both have received the coveted Forbes five-star distinction.

The Committee believes that our compensation program has been instrumental in supporting achievement of our branding success and our strong financial and stockholder value performance. The program emphasizes pay for performance and total compensation. It is designed to help recruit, retain and motivate a highly talented team of executives with the requisite set of skills and experience to successfully lead the Company in creating value for our stockholders.

The compensation of the Company s named executive officers consists primarily of base salary, annual cash incentives, and periodic grants of equity in the form of stock options and restricted stock. As a result, the vast majority of their total compensation is tied to the Company s financial and share price performance. Historically, Mr. Wynn has not received equity incentives, relying on his significant equity ownership as a founding stockholder to realize increases in value created for the Company s stockholders. For the past three years, Mr. Wynn received 64% of his total compensation in the form of annual cash incentives. The other named executive officers as a group received 73% of their total compensation in the form of annual and long-term incentives that are tied to the Company s operating results and stock price.

Table of Contents

In consideration of our outstanding performance, the Committee made the following compensation changes for NEOs in 2011:

- Increased the base salary for Mr. Wynn.
- Based on Company EBITDA that far exceeded our goals, awarded NEOs annual incentive awards at maximum levels for 2011 performance.
- Determined no additional equity awards were necessary during 2011 (none were made in 2010 either), in light of the significant grants awarded to the Company s most senior executive officers in 2009.
- Established a $10 million cash retention award to Ms. Chen, payable in ten years, in recognition of her contribution and continued importance to our Macau resort.
- Mr. Wynn received a $2 million discretionary bonus from the Wynn Macau Limited Board of Directors for his contribution to the extraordinary performance of Wynn Macau for 2011.

Philosophy and Objectives

The Committee believes that stockholder interests are best advanced by attracting and retaining a high-performing management team. To promote this objective, the Committee was guided by the following underlying principles in developing our executive compensation program:

- *Top talent* The program should be designed to gain a long-term commitment from the proven, successful executives that lead our success.
- *Focus on total compensation* Compensation opportunities should be considered in the context of total compensation relative to the pay practices of major gaming companies and other competitors for key talent.
- *Pay-for-performance* A high proportion of total compensation should be at risk and tied to achievement of annual operating goals and increases in stockholder value.
- *Long-term performance orientation* The mix of incentives provided should motivate long-term sustainable growth in the value of the brand and the enterprise.
- *Stockholder alignment* Long-term incentives should be provided periodically in Company equity to encourage executives to plan and act with the perspective of stockholders.

Our compensation program is simple in design and provides only a limited number of perquisites and executive benefits. We do not provide supplemental retirement benefits to our executives. The Committee regularly evaluates the Company s compensation arrangements to assess whether they are appropriately structured to support these objectives and are effective in enabling the Company to attract and retain superior employees in key positions.

19

Table of Contents

Program Overview

Element	*Role and Purpose*
Base salary	***Provide competitive foundation for total compensation***
	Recognize executive s demonstrated sustained performance, capabilities, job scope and experience
Annual incentives	***Motivate and reward achievement of annual EBITDA targets, which drive the valuation of our stock***
	Enforce accountability for individual performance through discretionary reductions in awards as deemed appropriate
Discretionary bonus	***Make periodic awards for superior contributions to the enterprise as determined in the discretion of the Committee***
Long-term incentives	***Align executives with stockholders***
(Stock options, restricted stock)	***Make periodic grants with long-term vesting to encourage a long-term value perspective and executive retention***
Deferred compensation	***Permit executives to participate in the Company s 401(k) plan to facilitate retirement savings***
Security benefits	***Consistent with the Board s requirement that Mr. Wynn travel privately for security reasons, provide him with access to Company aircraft for both personal and business travel, as well as a car and a driver (and security when necessary)***
Foreign living expenses	***Consistent with competitive practice in Macau, provide Ms. Chen with a car and driver, certain housing and living expenses and assistance with tax preparation***
Executive benefits	***Promote executive health through supplemental health benefits***
	Provide for executives families in the event of death through supplemental life insurance policies
Executive perquisites	***Offer industry-competitive discounts and complimentary privileges with respect to the Company s resorts and aircraft as described below***

Role of Executive Officers in Setting Compensation

The Committee sets all elements of compensation for the Chief Executive Officer and Chief Operating Officer based upon consideration of their respective contributions to the development and operating performance of the Company. Annually, the Committee reviews compensation data of those with whom we compete for talent. The Committee considers the recommendations of the Chief Executive Officer and Chief Operating Officer in establishing compensation for all other named executive officers. The Chief Executive Officer and Chief Operating Officer perform annual reviews of all of our senior management and make recommendations to the Committee. The Committee reviews the recommendations and makes final decisions regarding compensation for all of our most senior management.

Compensation Consultant

The Compensation Committee has the authority to retain compensation consulting firms exclusively to assist it in the evaluation of executive officer and employee compensation and benefit programs. During 2011, the Committee retained Pay Governance LLC, a nationally-recognized independent compensation consulting firm, to assist in performing its duties. In 2011, Pay Governance assisted with a review of certain benefits accorded to our CEO and advised the Committee with respect to compensation trends and best practices, competitive pay levels, equity grant practices and competitive levels, and proxy disclosure. While our advisor regularly consults with management in performing work requested by the Committee, Pay Governance did not perform any separate additional services for management.

Table of Contents

Setting Executive Compensation

In determining base salary, target annual incentives and guidelines for equity awards, the Committee uses the named executive officers current level of compensation as the starting point. Our compensation decisions consider the scope and complexity of the functions executives oversee, the contribution of those functions to our overall performance, their experience and capabilities, and individual performance, taking into consideration the compensation practices of our peers in order to obtain a general understanding of competitive compensation practices. In addition, wealth accumulation is considered when making equity grants to increase the alignment between the interest of our senior executives and those of our stockholders.

The Compensation Committee reviews total compensation annually, along with the value from past equity awards, to assess the need for change to current compensation. While cash bonuses and annual cash incentive compensation awards are considered annually on the basis of Company and individual performance, reviews of base salary and equity incentives are conducted only on a periodic basis or in recognition of notable contributions to value creation for Company stockholders. The Committee retains the discretion to adjust actual bonus amounts paid based on a variety of factors, including corporate, property level and individual performance, as well as general macroeconomic conditions.

The Committee believes that the companies in its Peer Group are those companies with which the Company competes for talent and stockholder investment. Please refer to the discussion below under Peer Group for a more detailed discussion of our use of Peer Group data.

2011 Advisory Resolution Approving Our Executive Compensation

At the May 17, 2011, Annual Meeting of Stockholders, our advisory resolution on executive compensation was approved by the stockholders. Although this approval was non-binding, the Board of Directors and the Compensation Committee considered the voting results in evaluating our executive compensation program for the current year. The Board of Directors and the Compensation Committee also consider the other factors discussed in this Compensation Discussion and Analysis. Following such consideration, the Board of Directors determined not to make any changes to our compensation program based on the advisory resolution voting result. In addition, at that same meeting, approximately 71% of the votes cast regarding the frequency proposal voted in favor of holding future advisory votes on executive compensation every three years. The Board has determined to follow this decision by stockholders. Accordingly, the next advisory resolution on executive compensation will be voted on by stockholders at the 2014 Annual Meeting of Stockholders.

Elements of Executive Compensation

We do not use a specific formula or weighting for allocating among the elements of our total compensation program including base salary, cash bonus awards, and long term compensation. Instead we offer what the Compensation Committee views to be effective for attracting and retaining key leaders while motivating management to maximize long term value of our Company for our stockholders.

Base Salary. Base salaries are established by employment contracts and reviewed and adjusted periodically if deemed necessary due to competitive reasons or to reflect sustained performance, capabilities, experience and changes in responsibility or other extraordinary circumstances. Companies in the gaming business typically have total compensation packages that may be higher than many of their non-gaming counterparts due to certain regulatory and other extraordinary demands. The Company s rapid expansion in the last six years and our operations in widely separated geographic locations has required that named executive officers provide extraordinary levels of financial, development and operating expertise. These efforts have resulted in industry-leading product and impressive financial performance, including returns to stockholders exceeding industry averages. Thus, in fulfilling the Company s goal of attracting and retaining high-quality and experienced executives, the Company has paid base salary levels for its named executive officers that may exceed the peer group median. Prior to an increase in 2011, Mr. Wynn s base salary had not been increased since 2008, other than restoring a 15% reduction that was applied to certain corporate executives in 2009 and 2010. Base salary increases for 2011 are indicated in the following table:

Executive	2011 Salary	2010 Salary	Increase
Stephen A. Wynn	$ 4,000,000	$ 3,250,000	23.1%
Matt Maddox	$ 1,000,000	$ 1,000,000	0%
Marc D. Schorr	$ 2,000,000	$ 2,000,000	0%
Linda Chen	$ 1,500,000	$ 1,500,000	0%
Kim Sinatra	$ 650,000	$ 650,000	0%

Annual Incentives. Our named executive officers participate in the Wynn Resorts, Limited Annual Performance-Based Incentive Plan for Executive Officers (the Incentive Plan). Within 90 days after the commencement of the year, the Compensation Committee identifies the executive officers who will participate in the Incentive Plan for that year and establishes the annual performance criteria. The Incentive Plan provides that the maximum annual incentive is 250% of base salary for Mr. Wynn and 200% of base salary for the other named executive officer participants.

For 2011, the Committee selected adjusted property EBITDA on a consolidated basis as the appropriate criterion and, in the course of such determination, concluded that the achievement of the performance criterion was substantially uncertain. Adjusted property EBITDA is a non-GAAP measure calculated at the segment level and reported in the footnotes to our audited consolidated financial statements. This criterion is a reflection on the operating performance of the Company s assets and directly influences return to stockholders. In addition, management and stockholders use adjusted property EBITDA to value the Company and its assets. Given the challenging economic environment an adjusted property EBITDA target of $1 billion on a consolidated basis was established for maximum Plan funding. Actual performance of $1.6 billion significantly exceeded the target and all participants were awarded the maximum incentive allowed under the Incentive Plan. While the Compensation Committee has the discretion to reduce individual awards from this maximum level based on other Company and individual performance and any other considerations it may deem appropriate, it did not exercise that discretion with respect to 2011 owing to the outstanding Company EBITDA results.

In addition, the Compensation Committee approved a $2 million discretionary bonus to Mr. Wynn outside the Incentive Plan awarded by the Wynn Macau Limited Board of Directors for his contribution to the extraordinary performance of Wynn Macau for 2011.

Long-term Incentives. The Company makes only periodic (not annual) equity grants to executives, with the last grant in 2009. The Committee uses grants under the 2002 Stock Plan to attract qualified individuals to work for the Company and align executives with the perspective of stockholders, and makes additional grants periodically to existing officers to reward extraordinary performance and encourage retention with the Company. Periodic grants to named executive officers are typically made with long term vesting dates to assure retention of talent deemed important to the Company s continued prosperity. From time to time, the Company also has granted long-term cash retention awards to reward extraordinary performance and encourage retention. The underlying philosophy behind this approach is to retain senior management for the long term, building a talent base to drive sustained Company performance and growth. As in 2010, the Compensation Committee determined not to make any grants during 2011 to the named executive officers in light of significant grants awarded to the Company s most senior officers in 2009.

Mr. Wynn, the founder, Chairman and Chief Executive Officer of the Company who owns 10% of the Company s outstanding stock, has not participated in the Company s equity incentive plans. This differs from the chief executive officer compensation at most of the companies included in the Peer Group.

In July 2011, Ms. Chen was granted a $10 million cash retention award which vests in full on July 27, 2021, subject to certain provisions. This retention award was awarded to Ms. Chen for her current and expected future

Table of Contents

contributions to the success of the Company and to provide an incentive to her to remain an employee of the Company. If Ms. Chen s employment is terminated without Cause (as such term is defined in the Agreement) prior to the vesting date by the Company or one of its affiliates (including without limitation, termination due to death or disability), a pro-rated portion of the award equal to the number of full calendar months elapsed between the grant date and the date of such termination of employment divided by 120 shall vest and become payable within 30 days following such termination of employment. If Ms. Chen s employment is terminated for any other reason (including termination for Cause or Ms. Chen s voluntary resignation) prior to the vesting date, the award is forfeited in full and no compensation is paid under the award.

Peer Group

The Committee believes that it is appropriate to offer competitive cash and equity compensation packages to executive officers in order to attract and retain top executive talent. The compensation peer group allows the Committee to monitor the compensation practices of our primary competitors for executive talent, although the Committee also takes into account the gaming industry s extensive regulatory requirements and other demands. However, the Committee does not utilize this information to target any specific pay percentile for the Company s executive officers. Instead, the Committee uses this information as a general overview of market practices and to ensure that it makes informed decisions on executive pay packages in the interest of attracting and retaining highly-qualified executive talent.

To help evaluate overall 2011 compensation, the Committee reviewed the Peer Group established in 2010 to confirm it remained appropriate in light of the growth in Company market capitalization and revenues and the competitive market for key executive talent.

Wynn Resorts 2011 Executive Compensation Peer Group

Gaming & Resorts	Travel, Hospitality & Resorts	Lifestyle Products
Las Vegas Sands Corp.	**Carnival plc**	**Estee Lauder Companies**
MGM Resorts International	**Hyatt Hotels Corporation**	**Ralph Lauren Corporation**
	Marriott International	**Starbucks Corporation**
	priceline.com	**Tiffany & Co.**
	Starwood Hotels & Resorts	

The 11 companies in the peer group[1] generally had 2011 revenue, market capitalization and total enterprise value (as of December 31, 2011) in a relevant range around those of the Company as set forth below (amounts in millions).

Market Value	Enterprise Value	Revenue	Company	Business Segment
$34,296	$ 33,276	$ 12,186	Starbucks Corporation	Lifestyle Products
30,231	36,361	9,411	Las Vegas Sands Corp.	Gaming & Resorts
25,671	28,665	7,160	Carnival plc	Cruise & Resorts
23,284	23,149	4,356	priceline.com	Travel
21,630	21,844	9,443	Estee Lauder Companies	Lifestyle Products
13,820	15,775	5,270	Wynn Resorts Ltd.	Gaming & Resorts
12,721	12,171	6,664	Ralph Lauren Corporation	Lifestyle Products
9,776	11,845	12,317	Marriott International	Hotels & Resorts
9,370	11,645	5,624	Starwood Hotels & Resorts	Hotels & Resorts
8,412	8,682	3,643	Tiffany & Co.	Lifestyle Products
6,217	6,908	3,698	Hyatt Hotels Corporation	Hotels & Resorts
5,099	16,705	7,849	MGM Resorts International	Gaming & Resorts
51%	***48%***	***27%***	***Wynn Resorts Percentile Rank***	

(1) Peer data source: Standard & Poor s Capital IQ as of the most recently available date.

Table of Contents

Tax and Accounting Implications

Internal Revenue Code Section 162(m) prevents publicly traded companies from receiving a tax deduction on certain compensation paid to the chief executive officer and three other highest-paid executive officers (other than the chief financial officer) in excess of $1,000,000 in any taxable year, unless the compensation qualifies as performance-based. The Company s policy with respect to qualifying compensation paid to its executive officers for tax deductibility purposes is that executive compensation plans will be designed and implemented to maximize tax deductibility when consistent with the overall objectives of the compensation program. However, the Compensation Committee may elect to provide non-deductible compensation when it determines that to be advisable to achieve its compensation objectives of attracting or retaining key executives, or where achieving maximum tax deductibility would be considered disadvantageous to the best interests of the Company. Salaries over $1,000,000, perquisites, restricted stock grants and discretionary bonuses do not qualify as performance-based compensation under Section 162(m).

Employment Agreements

The Company typically enters into employment agreements with its executives to advance its objectives of providing for a long-term commitment by and relationship with talented and experienced executives. Consistent with the extended vesting terms in equity awards, the terms and conditions of these agreements are described in the chart following the 2011 Summary Compensation table.

The employment agreements for the named executive officers specify their base salary, provide for a discretionary bonus opportunity and provide that if the executive s employment terminates for death, disability, good reason or without cause, (including after a change in control) the executive will receive a multiple (ranging from one to, in the case of Mr. Wynn, three times) of the sum of the executive s salary and imputed bonus that would be payable during the remaining term of the contract, but not less than one year, except that Mr. Wynn s and Ms. Chen s payments are limited to 4 years salary and bonus in certain circumstances. The employment agreements and the terms of equity awards also provide that vesting of some or all of an executive s equity awards will accelerate upon such event. If termination occurs after a change in control, the employment agreements also provide for a tax gross-up. The Committee has determined that these arrangements are appropriate compensation to its senior management and are necessary to retain talent in a highly competitive industry. Additional information regarding payments under these provisions is provided under the heading Potential Payments Made Upon Termination or a Change of Control.

Executive Benefits

In addition to base salary, annual incentive compensation and long term equity incentives, the Company also provides certain of its named executive officers with executive benefits. The primary executive benefits include certain health insurance coverage, life insurance premiums, discounts and complimentary privileges with respect to the Company s resorts which are described in the footnotes to the 2011 Summary Compensation Table. In addition, Messrs. Wynn and Schorr have access to the Company s aircraft pursuant to time sharing agreements described in Certain Relationships and Related Transactions Aircraft Arrangements. For security purposes, the Board of Directors requires Mr. Wynn to travel on Company aircraft for both personal and business travel, and the Company provides cars and a driver (and security when necessary) for his personal use. Consistent with competitive practice in Macau, Ms. Chen receives a car and driver, certain housing and living expenses and assistance with tax preparation.

CEO Compensation

Mr. Wynn is employed by the Company pursuant to an employment agreement dated October 4, 2002, which was last amended on February 24, 2011 solely to reflect the change in his salary and has a term expiring in 2020. Mr. Wynn, a holder of approximately 10.0% of our common stock, has not received any equity awards as part of his compensation as Chief Executive Officer of the Company. Effective February 24, 2011, Mr. Wynn

Table of Contents

receives a base salary of $4,000,000 per year, and participates in the Incentive Plan. Mr. Wynn is provided with Company paid life insurance and disability policies. He also receives certain executive benefits described above.

REPORT OF THE COMPENSATION COMMITTEE

We have reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with the Company s management. Based on such review and discussion, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K/A for the year ended December 31, 2011.

Compensation Committee

Dr. Ray R. Irani, Chairman

Russell Goldsmith

John A. Moran

Alvin V. Shoemaker

D. Boone Wayson

Table of Contents

2011 SUMMARY COMPENSATION TABLE

The table below summarizes the total compensation awarded to, earned by or paid to each of the named executive officers for the fiscal years ended December 31, 2011, 2010 and 2009.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)	All Other Compensation ($)(2)	Total ($)
Stephen A. Wynn	2011	$ 3,878,846	$ 2,000,000	$	$ 9,062,500	$ 1,533,361	$ 16,474,707
Chairman and	2010	$ 2,950,000	$ 3,218,750	$	$ 6,906,250	$ 1,540,779	$ 14,615,779
Chief Executive Officer	2009	$ 2,953,125	$ 4,062,500	$	$	$ 1,370,206	$ 8,385,831
Matt Maddox	2011	$ 1,000,000	$	$	$ 2,000,000	$ 390,756	$ 3,390,756
Chief Financial Officer	2010	$ 1,038,423	$	$	$ 2,000,000	$ 510,866	$ 3,549,289
and Treasurer	2009	$ 779,988	$ 5,650,000	$ 8,348,244	$	$ 248,067	$ 15,026,299
Marc D. Schorr	2011	$ 2,000,000	$	$	$ 4,000,000	$ 2,117,573	$ 8,117,573
Chief Operating Officer	2010	$ 1,838,462	$ 600,000	$	$ 3,400,000	$ 2,307,923	$ 8,146,385
	2009	$ 1,817,308	$ 2,000,000	$ 13,913,740	$	$ 1,153,817	$ 18,884,865
Linda Chen	2011	$ 1,500,000	$	$	$ 3,000,000	$ 1,352,926	$ 5,852,926
President of Wynn	2010	$ 1,417,308	$ 1,000,000	$	$ 2,000,000	$ 1,788,762	$ 6,206,070
International Marketing	2009	$ 951,701	$ 1,000,000	$ 8,348,244	$	$ 858,565)	(86,200)

Purchases of long-term investments and other assets	(13,698)	(20,608)
Proceeds from sale of long-term investments and other assets	2,897	764
Net cash used for investing activities	(26,083)	(426,429)
Cash flows from financing activities:		
Purchases of treasury stock	(1,000,000)	(500,000)
Proceeds from reissuance of treasury stock	64,682	52,830
Taxes paid related to net share settlement of equity awards	(322,505)	(197,845)
	(815)	(912)

Repayment of capital lease obligations		
Net cash used for financing activities	(1,258,638)	(645,927)
Effect of foreign currency exchange rates on cash and cash equivalents	628	2,794
Net increase in cash and cash equivalents	681,914	305,635
Cash and cash equivalents at beginning of period	2,306,072	1,011,315
Cash and cash equivalents at end of period	$2,987,986	$1,316,950
Supplemental disclosures:		
Cash paid for income taxes, net of refunds	$73,508	$48,670
Cash paid for interest	$37,503	$33,958
Non-cash investing activities:		
Investment in lease receivable applied to building purchase	$—	$80,439
Issuance of common stock and stock awards assumed in business acquisitions	$—	$10,348

See accompanying notes to condensed consolidated financial statements.

6

Table of Contents

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 1, 2017 on file with the SEC (our "Annual Report").

Recently Adopted Accounting Guidance

On January 26, 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2017-04, Simplifying the Test for Goodwill Impairment, which eliminated step two from the goodwill impairment test. In assessing impairment of goodwill, if it is concluded that it is more likely than not that the carrying amount of a reportable segment exceeds its fair value during the qualitative assessment, a one-step goodwill impairment test will be performed. If it is concluded during the quantitative test that the carrying amount of a reportable segment exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reportable segment. The effective date of the new standard for public companies is for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption is permitted.

In the first quarter of 2018, we early adopted ASU 2017-04. The standard did not have an impact to our qualitative assessment for goodwill impairment that we performed in the second quarter of fiscal 2018.

Significant Accounting Policies

There have been no other material changes to our significant accounting policies during the six months ended June 1, 2018, as compared to the significant accounting policies described in our Annual Report.

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 GAAP when it becomes effective and permits the use of either the full retrospective or modified retrospective transition method. The updated standard is effective for us in the first quarter of fiscal 2019. We expect to adopt this updated standard in the first quarter of fiscal 2019 on a modified retrospective basis. We are currently evaluating the effect that the updated standard will have on our condensed consolidated financial statements and related disclosures.

While we are continuing to assess all potential impacts of the new standard, we believe there should not be a material change to the amount of consolidated revenues on an annual basis.

We expect revenue related to our cloud offerings, including Creative Cloud and Document Cloud for business enterprises, individuals and teams, to remain substantially unchanged. When sold with cloud-enabled services, Creative Cloud and Document Cloud require a significant level of integration and interdependency with software and the individual components are not considered distinct. Revenue for these offerings will continue to be recognized over the period in which the cloud services are provided.

We believe the most significant impact relates to our accounting for arrangements that include on-premise 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 vendor-specific objective evidence ("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

7

Table of Contents

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

licenses and potential classification as “product” instead of “subscription” revenue on the income statement. We offer on-premise term-based software licenses bundled with maintenance and support as a deployment model for certain offerings within our Digital Experience, Digital Media, and Publishing business units. We do not expect these arrangements to have a material impact to revenue reported in annual reporting periods subsequent to adoption, however they may result in a material balance sheet impact on the date of adoption due to the application of the modified retrospective transition method. This method requires that we account for all contracts or only those contracts that are not completed contracts at the date of initial adoption, using the modified retrospective approach and not restating prior financial periods. We will record a cumulative effect of initially applying the provisions of the new standard as an adjustment to increase the opening retained earnings balance and reduce the opening deferred revenue balance.

Other expected impacts to our policies and disclosures include: earlier recognition of revenue for certain contracts due to the elimination of contingent revenue limitations, the requirement to estimate variable consideration for certain arrangements, increased allocation of revenue to and from professional services and other offerings, and changes to our financial statement disclosures such as remaining performance obligations.

Under current GAAP, we expense costs related to the acquisition of revenue-generating contracts as incurred. Under the new standard, we will be required to capitalize certain costs incremental to contract acquisition and amortize them over the expected period of benefit. There may be a material balance sheet impact at the period of adoption to capitalize costs of obtaining the contract as an asset, with a corresponding adjustment to opening retained earnings at the date of initial adoption. Additionally, we may have to record related deferred income taxes. We continue to evaluate the magnitude of the impact and the period over which these capitalized costs will be amortized.

Due to the complexity of certain of our contracts, the actual accounting 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 with a lease term of twelve months or less. For lessees, leases will continue to be classified as either operating or finance leases in the income statement. Lessor accounting is similar to the current model but updated to align with certain changes to the lessee model. Lessors will continue to classify leases as operating, direct financing or sales-type leases. The effective date of the new 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 condensed consolidated financial statements and related disclosures.

On August 28, 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging, requiring expanded hedge accounting for both non-financial and financial risk components and refining the measurement of hedge results to better reflect an entity's hedging strategies. The updated standard also amends the presentation and disclosure requirements and changes how entities assess hedge effectiveness. The effective date of the new standard for public companies is for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition with a cumulative effect adjustment recorded to opening retained earnings as of the initial adoption date. The updated standard is effective for us beginning in the first quarter of fiscal 2020 and we do not plan to early adopt. We are currently evaluating the effect that the updated standard will have on our condensed 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 six months ended June 1, 2018, as compared to the recent accounting pronouncements described in our Annual Report, 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. Under the acquisition method of accounting, the total purchase price was allocated to TubeMogul's net tangible and intangible assets based upon their estimated fair values as of December 19, 2016. The total final purchase price for TubeMogul was $560.8

8

Table of Contents

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

million of which $348.4 million, was allocated to goodwill that was non-deductible for tax purposes, $113.1 million to identifiable intangible assets and $99.3 million to net assets acquired.

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

Subsequent to June 1, 2018, we completed our acquisition of Magento Commerce ("Magento"), a privately-held commerce platform company, for approximately $1.68 billion in cash consideration, as well as the assumption of certain employee equity awards. The initial purchase accounting for this transaction has not yet been completed given the short period of time between the acquisition date and the issuance of these financial statements. Magento will be integrated into our Digital Experience reportable segment for financial reporting purposes in the third quarter of fiscal 2018.

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 June 1, 2018 (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	$345,475	$ —	$—	$345,475
Cash equivalents:				
Corporate bonds and commercial paper	21,294	3	(1)	21,296
Money market mutual funds	2,590,037	—	—	2,590,037
Time deposits	31,178	—	—	31,178
Total cash equivalents	2,642,509	3	(1)	2,642,511
Total cash and cash equivalents	2,987,984	3	(1)	2,987,986
Short-term fixed income securities:				
Asset-backed securities	84,710	—	(823)	83,887
Corporate debt securities	2,451,735	647	(32,110)	2,420,272
Foreign government securities	3,852	—	(65)	3,787
Municipal securities	19,236	—	(303)	18,933
U.S. Treasury securities	822,735	—	(3,536)	819,199
Total short-term investments	3,382,268	647	(36,837)	3,346,078
Total cash, cash equivalents and short-term investments	$6,370,252	$ 650	$(36,838)	$6,334,064

Table of Contents

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 1, 2017 (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	$280,488	$ —	$—	$280,488
Cash equivalents:				
Money market mutual funds	2,006,741	—	—	2,006,741
Time deposits	18,843	—	—	18,843
Total cash equivalents	2,025,584	—	—	2,025,584
Total cash and cash equivalents	2,306,072	—	—	2,306,072
Short-term fixed income securities:				
Asset-backed securities	98,403	1	(403)	98,001
Corporate debt securities	2,461,691	2,694	(10,125)	2,454,260
Foreign government securities	2,396	—	(8)	2,388
Municipal securities	21,189	8	(132)	21,065
U.S. Treasury securities	941,538	2	(3,552)	937,988
Total short-term investments	3,525,217	2,705	(14,220)	3,513,702
Total cash, cash equivalents and short-term investments	$5,831,289	$ 2,705	$(14,220)	$5,819,774

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 June 1, 2018 and December 1, 2017 (in thousands):

	2018		2017	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate debt securities	$1,806,212	$(25,141)	$1,338,232	$ (5,459)
Asset-backed securities	50,375	(525)	64,618	(193)
Municipal securities	17,987	(279)	11,805	(115)
Foreign government securities	3,787	(65)	2,388	(8)
U.S. Treasury securities	516,896	(2,231)	593,296	(2,087)
Total	$2,395,257	$(28,241)	$2,010,339	$ (7,862)

There were 1,210 securities and 894 securities in an unrealized loss position for less than twelve months at June 1, 2018 and at December 1, 2017, respectively.

Table of Contents

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 June 1, 2018 and December 1, 2017 (in thousands):

	2018		2017	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate debt securities	$461,358	$ (6,970)	$500,689	$ (4,666)
Asset-backed securities	33,512	(298)	32,383	(210)
Municipal securities	945	(24)	598	(17)
U.S. Treasury securities	302,303	(1,305)	338,950	(1,465)
Total	$798,118	$ (8,597)	$872,620	$ (6,358)

There were 331 securities and 360 securities in an unrealized loss position for more than twelve months at June 1, 2018 and at December 1, 2017, 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 June 1, 2018 (in thousands):

	Amortized Cost	Estimated Fair Value
Due within one year	$1,602,117	$1,594,991
Due between one and two years	799,230	789,530
Due between two and three years	762,818	748,883
Due after three years	218,103	212,674
Total	$3,382,268	$3,346,078

We review our debt securities classified as short-term investments on a regular basis to evaluate whether or not any security has experienced an other-than-temporary decline in fair value. We consider factors such as the length of time and extent to which the market value has been less than the cost, the financial condition and near-term prospects of the issuer and our intent to sell, or whether it is more likely than not we will be required to sell the investment before recovery of the investment's amortized cost basis. If we believe that an other-than-temporary decline exists in one of these securities, we write down these investments to fair value. The portion of the write-down related to credit loss would be recorded to interest and other income, net in our condensed consolidated statements of income. Any portion not related to credit loss would be recorded to accumulated other comprehensive income, which is reflected as a separate component of stockholders' equity in our condensed consolidated balance sheets. During the six months ended June 1, 2018 and June 2, 2017, we did not consider any of our investments to be other-than-temporarily impaired.

Table of Contents

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 six months ended June 1, 2018.

The fair value of our financial assets and liabilities at June 1, 2018 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	$21,296	$—	$21,296	$ —
Money market mutual funds	2,590,037	2,590,037	—	—
Time deposits	31,178	31,178	—	—
Short-term investments:				
Asset-backed securities	83,887	—	83,887	—
Corporate debt securities	2,420,272	—	2,420,272	—
Foreign government securities	3,787	—	3,787	—
Municipal securities	18,933	—	18,933	—
U.S. Treasury securities	819,199	—	819,199	—
Prepaid expenses and other current assets:				
Foreign currency derivatives	40,081	—	40,081	—
Other assets:				
Deferred compensation plan assets	67,487	3,376	64,111	—
Total assets	$6,096,157	$2,624,591	$3,471,566	$ —

Liabilities:				
Accrued expenses:				
Foreign currency derivatives	$1,280	$—	$1,280	$—
Other Liabilities:				
Interest rate swap derivatives	10,076	—	10,076	—
Total liabilities	$11,356	$—	$11,356	$—

12

Table of Contents

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The fair value of our financial assets and liabilities at December 1, 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:				
Money market mutual funds	$2,006,741	$2,006,741	$—	$ —
Time deposits	18,843	18,843	—	—
Short-term investments:				
Asset-backed securities	98,001	—	98,001	—
Corporate debt securities	2,454,260	—	2,454,260	—
Foreign government securities	2,388	—	2,388	—
Municipal securities	21,065	—	21,065	—
U.S. Treasury securities	937,988	—	937,988	—
Prepaid expenses and other current assets:				
Foreign currency derivatives	14,198	—	14,198	—
Other assets:				
Deferred compensation plan assets	56,690	2,573	54,117	—
Total assets	$5,610,174	$2,028,157	$3,582,017	$ —

Liabilities:				
Accrued expenses:				
Foreign currency derivatives	$1,598	$—	$1,598	$—
Other liabilities:				
Interest rate swap derivatives	1,058	—	1,058	—
Total liabilities	$2,656	$—	$2,656	$—

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

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

Our Level 2 over-the-counter foreign currency 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.

Table of Contents

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 and equity 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 and equity 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 and six months ended June 1, 2018 and June 2, 2017, we determined there were no other-than-temporary impairments of our cost and equity method investments.

The fair value of our senior notes was $1.91 billion as of June 1, 2018, based on observable market prices in less active markets and categorized as Level 2. See Note 13 for further details regarding our debt.

NOTE 5. DERIVATIVES AND HEDGING ACTIVITIES

Hedge Accounting and Hedging Programs

We recognize derivative instruments and hedging activities as either assets or liabilities in 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 on our condensed consolidated statements of income. The net gain (loss) recognized in interest and other income (expense), net for cash flow hedges due to hedge ineffectiveness was insignificant for all fiscal years presented. 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, we enter into master netting arrangements which have the ability to further limit credit-related losses with the same counterparty by permitting net settlement of transactions.

Balance Sheet Hedging—Hedges of Foreign Currency Assets and Liabilities

We also 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.

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.

Table of Contents

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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) in 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

In 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 13 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 statements of income. The fair value of the interest rate swaps is reflected in other liabilities or other assets in our condensed consolidated balance sheets.

The fair value of derivative instruments on our condensed consolidated balance sheets as of June 1, 2018 and December 1, 2017 were as follows (in thousands):

	2018		2017	
	Fair Value Asset Derivatives	Fair Value Liability Derivatives	Fair Value Asset Derivatives	Fair Value Liability Derivatives
Derivatives designated as hedging instruments:				
Foreign exchange option contracts[(1) (2)]	$38,918	$ —	$12,918	$ —
Interest rate swap [(3)]	—	10,076	—	1,058
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts [(1)]	1,163	1,280	1,280	1,598
Total derivatives	$40,081	$ 11,356	$14,198	$ 2,656

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

(3) Included in other liabilities on our condensed consolidated balance sheets.

Table of Contents

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 and six months ended June 1, 2018 was as follows (in thousands):

	Three Months		Six Months	
	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]	$31,104	$ —	$29,767	$ —
Net gain (loss) reclassified from accumulated OCI into income, net of tax[2]	$337	$ —	$1,359	$ —
Net gain (loss) recognized in income[3]	$(12,084)	$ —	$(22,410)	$ —
Derivatives not designated as hedging relationships:				
Net gain (loss) recognized in income[4]	$—	$ 2,784	$—	$ (877)

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 and six months ended June 2, 2017 was as follows (in thousands):

	Three Months		Six Months	
	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]	$(4,579)	$ —	$2,130	$ —
Net gain (loss) reclassified from accumulated OCI into income, net of tax[2]	$13,315	$ —	$31,624	$ —
Net gain (loss) recognized in income[3]	$(9,615)	$ —	$(15,652)	$ —
Derivatives not designated as hedging relationships:				
Net gain (loss) recognized in income[4]	$—	$ 2,448	$—	$ 3,536

(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.

16

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 6. GOODWILL AND PURCHASED AND OTHER INTANGIBLES

Goodwill as of June 1, 2018 and December 1, 2017 was $5.82 billion for both periods. During the six months ended June 1, 2018, decreases due to foreign currency translation adjustments were offset by the increase from an immaterial acquisition. During the second quarter of fiscal 2018, we completed our annual goodwill impairment test associated with our reporting units and determined there was no impairment of goodwill.

Purchased and other intangible assets subject to amortization as of June 1, 2018 and December 1, 2017 were as follows (in thousands):

	2018			2017		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Purchased technology	$184,025	$ (88,062)	$95,963	$223,252	$ (110,433)	$112,819
Customer contracts and relationships	$546,138	$ (363,256)	$182,882	$577,484	$ (356,613)	$220,871
Trademarks	35,255	(17,399)	17,856	76,255	(56,094)	20,161
Acquired rights to use technology	61,916	(48,354)	13,562	71,130	(54,223)	16,907
Localization	645	(503)	142	603	(170)	433
Other intangibles	36,980	(26,907)	10,073	38,693	(24,226)	14,467
Total other intangible assets	$680,934	$ (456,419)	$224,515	$764,165	$ (491,326)	$272,839
Purchased and other intangible assets, net	$864,959	$ (544,481)	$320,478	$987,417	$ (601,759)	$385,658

Amortization expense related to purchased and other intangible assets was $34.6 million and $68.5 million for the three and six months ended June 1, 2018, respectively. Comparatively, amortization expense related to purchased and other intangible assets was $39.1 million and $77.2 million for the three and six months ended June 2, 2017, respectively. Of these amounts, $17.4 million and $34.0 million were included in cost of sales for the three and six months ended June 1, 2018, respectively, and $19.5 million and $38.2 million the three and six months ended June 2, 2017, respectively.

During the six months ended June 1, 2018, certain purchased intangibles associated with our acquisitions of Omniture, Inc. and Day Software Holding AG became fully amortized and were removed from the condensed consolidated balance sheets.

As of June 1, 2018, we expect amortization expense in future periods to be as follows (in thousands):

Fiscal Year	Purchased Technology	Other Intangible Assets
Remainder of 2018	$ 18,729	$ 48,720
2019	34,173	70,402
2020	31,880	39,866
2021	9,391	17,218
2022	1,622	14,151
Thereafter	168	34,158
Total expected amortization expense	$ 95,963	$ 224,515

17

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 7. ACCRUED EXPENSES

Accrued expenses as of June 1, 2018 and December 1, 2017 consisted of the following (in thousands):

	2018	2017
Accrued compensation and benefits	$432,871	$417,742
Accrued media costs	113,314	134,525
Sales and marketing allowances	37,621	47,389
Accrued corporate marketing	76,412	72,087
Taxes payable	46,350	49,550
Royalties payable	42,052	46,411
Accrued interest expense	25,596	25,594
Other	256,151	200,475
Accrued expenses	$1,030,367	$993,773

Accrued media costs primarily relate to our advertising platform offerings which are part of the Advertising Cloud. We accrue for media costs related to impressions purchased from third-party ad inventory sources. Other primarily includes general corporate accruals for local and regional expenses. Other is also comprised of deferred rent related to office locations with rent escalations and foreign currency liability derivatives.

NOTE 8. INCOME TAXES

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

The Tax Act was effective in the first quarter of our fiscal 2018. As of June 1, 2018, we have not completed our accounting for the tax effects of the Tax Act. During the quarter, we recorded an adjustment to the provisional tax charge based on reasonable estimates for those tax effects using the current available information and technical guidance on the interpretations of the Tax Act. In order to complete our accounting for the impact of the Tax Act, we continue to obtain, analyze and interpret additional guidance as such guidance becomes available from the U.S. Treasury Department, the Internal Revenue Service (“IRS”), state taxing jurisdictions, the FASB, and other standard-setting and regulatory bodies. New guidance or interpretations may materially impact our provision for income taxes in future periods. Additional information that is needed to complete the analysis but is currently unavailable includes, but is not limited to, the amount of earnings of certain subsidiaries as well as the amount of foreign taxes paid on such earnings for our fiscal 2018, the final determination of certain net deferred tax assets subject to remeasurement and when the related temporary differences will be settled or realized, and the tax treatment of such provisions of the Tax Act by various state tax authorities. In addition, we do not currently have sufficient information and guidance to determine the impact of certain changes to the taxation of our foreign earnings that will become effective for us in fiscal 2019. The provisional accounting impacts may change in future reporting periods until our accounting analysis is finalized, which will occur no later than one year from the enactment date, as permitted by SEC Staff Accounting Bulletin 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act.

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

As a result of the reduction in the federal corporate tax rate, we remeasured our deferred taxes as of the date of enactment of the Tax Act and recorded a provisional tax charge of $10 million based on the tax rate that is expected to apply when such deferred taxes are settled or realized in future periods. We have not completed our accounting for the measurement of deferred taxes. To calculate the remeasurement of deferred taxes, we estimated when the existing deferred taxes will be settled or realized. The remeasurement of deferred taxes included in our financial statements will be subject to further revisions if our current estimates are different from our actual future operating results.

As part of the adoption of a new territorial tax system we recorded a provisional transition tax expense of $118 million on deferred foreign earnings, which was comprised of $86 million for fiscal 2018 plus other ancillary effects recorded in the first fiscal quarter, long-term income taxes payable of $533 million, and a reduction in our deferred tax liability of $415 million. As a result of a change to our corporate tax structure that provided us the ability to deduct more expenses against our earnings in the U.S., we updated our Tax Act calculation during the three months ended June 1, 2018. This included an additional provisional transition tax expense of $28 million on deferred foreign earnings, a decrease of deferred tax assets by $72 million which also included utilization of credits that we estimate will be available to reduce the transition tax, and a reduction of long-term income tax payable by $44 million. To calculate the transition tax, we estimated our deferred foreign income for fiscal 2017 and 2018 because these tax returns are not complete or due. The fiscal 2017 and fiscal 2018 taxable income will be known once the respective tax returns are completed and filed. In addition, U.S. and foreign audit settlements may significantly impact the estimated transition tax. The impact of the U.S. and foreign audits on the transition tax will be known as the audits are concluded. We intend to elect to pay the federal transition tax over a period of eight years as permitted by the Tax Act. As a result, we reclassified $39 million from long-term income taxes payable to short-term income taxes payable for the first installment payment due in fiscal 2019.

Certain international provisions introduced in the Tax Act will be effective for us in fiscal 2019. We need additional information to complete our analysis on whether to adopt an accounting policy to account for the tax effects of these provisions in the period that it is subject to such tax, or to provide deferred taxes for book and tax basis differences that upon reversal may be subject to these taxes. Accordingly, we have not recorded any tax with respect to these provisions in the six months ended June 1, 2018. We will make an accounting policy election and complete the required accounting no later than the first quarter of fiscal 2019.

NOTE 9. STOCK-BASED COMPENSATION

Summary of Restricted Stock Units

Restricted stock unit activity for the six months ended June 1, 2018 and the fiscal year ended December 1, 2017 was as follows (in thousands):

	2018	2017
Beginning outstanding balance	9,304	8,316
Awarded	3,324	5,018
Released	(3,206)	(3,859)
Forfeited	(376)	(766)
Increase due to acquisition	—	595
Ending outstanding balance	9,046	9,304

19

Table of Contents

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Information regarding restricted stock units outstanding at June 1, 2018 and June 2, 2017 is summarized below:

	Number of Shares (thousands)	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value(*) (millions)
2018			
Restricted stock units outstanding	9,046	1.36	$ 2,273.3
Restricted stock units vested and expected to vest	8,224	1.30	$ 2,066.9
2017			
Restricted stock units outstanding	9,655	1.42	$ 1,385.4
Restricted stock units vested and expected to vest	8,741	1.36	$ 1,254.2

(*) 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 June 1, 2018 and June 2, 2017 were $251.31 and $143.48, respectively.

Summary of Performance Shares

Our 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 2018, the Executive Compensation Committee approved the 2018 Performance Share Program.

In the first quarter of fiscal 2018, the Executive Compensation Committee also certified the actual performance achievement of participants in the 2015 Performance Share Program. Actual performance resulted in participants achieving 200% of target or approximately 1.0 million shares. The shares granted and achieved under the 2015 Performance Share Program fully vested on the three-year anniversary of the grant on January 24, 2018, if not forfeited.

In the first quarter of fiscal 2017, the Executive Compensation Committee 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.

As of June 1, 2018, the shares awarded under our 2018, 2017 and 2016 Performance Share Programs are yet to be achieved.

Table of Contents

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table sets forth the summary of performance share activity under our Performance Share Programs for the six months ended June 1, 2018 and the fiscal year ended December 1, 2017 (in thousands):

	2018		2017	
	Shares Granted	Maximum Shares Eligible to Receive	Shares Granted	Maximum Shares Eligible to Receive
Beginning outstanding balance	1,534	3,068	1,630	3,261
Awarded	837 [(1)]	628	1,082 [(2)]	1,040
Achieved	(1,050)	(1,054)	(1,135)	(1,147)
Forfeited	(120)	(240)	(43)	(86)
Ending outstanding balance	1,201	2,402	1,534	3,068

(1) Included in the 0.8 million shares awarded during the six months ended June 1, 2018 were 0.5 million shares awarded for the final achievement of the 2015 Performance Share program. The remaining awarded shares were for the 2018 Performance Share Program.

(2) Included in the 1.1 million shares awarded during the fiscal year ended December 1, 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.

Summary of Employee Stock Purchase Plan Shares

There were no stock purchases under the Employee Stock Purchase Plan ("ESPP") during the three months ended June 1, 2018 and June 2, 2017. 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 six months ended June 1, 2018 and June 2, 2017 were as follows:

	2018	2017
Expected life (in years)	0.5 - 2.0	0.5 - 2.0
Volatility	26% - 27%	22% - 25%
Risk free interest rate	1.54% - 1.89%	0.62% - 1.2%

Employees purchased 0.7 million shares at an average price of $91.74 and 0.7 million shares at an average price of $71.71 for the six months ended June 1, 2018 and June 2, 2017, respectively. The intrinsic value of shares purchased during the six months ended June 1, 2018 and June 2, 2017 was $54.3 million and $20.4 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 June 1, 2018 and December 1, 2017, we had 0.1 million and 0.3 million stock options outstanding, respectively.

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Compensation Costs

As of June 1, 2018, there was $1.10 billion 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 2.1 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 June 1, 2018 and June 2, 2017 were as follows (in thousands):

Income Statement Classifications	2018 Option Grants and Stock Purchase Rights	2018 Restricted Stock Units and Performance Share Awards	2017 Option Grants and Stock Purchase Rights	2017 Restricted Stock Units and Performance Share Awards
Cost of revenue—subscription	$729	$ 4,526	$878	$ 4,673
Cost of revenue—services and support	1,647	2,680	1,501	1,677
Research and development	5,301	63,608	4,435	42,539
Sales and marketing	5,443	42,747	4,801	35,439
General and administrative	1,350	17,346	1,262	19,615
Total	$14,470	$ 130,907	$12,877	$ 103,943

Total stock-based compensation costs included in our condensed consolidated statements of income for the six months ended June 1, 2018 and June 2, 2017 were as follows (in thousands):

Income Statement Classifications	2018 Option Grants and Stock Purchase Rights	2018 Restricted Stock Units and Performance Share Awards	2017 Option Grants and Stock Purchase Rights	2017 Restricted Stock Units and Performance Share Awards
Cost of revenue—subscription	$1,497	$ 8,470	$1,271	$ 6,834
Cost of revenue—services and support	3,663	5,666	3,224	4,742
Research and development	10,649	117,681	8,467	75,633
Sales and marketing	10,763	81,595	9,189	67,904
General and administrative	2,830	38,088	2,492	37,931
Total	$29,402	$ 251,500	$24,643	$ 193,044

NOTE 10. STOCKHOLDERS' EQUITY

Retained Earnings

The changes in retained earnings for the six months ended June 1, 2018 were as follows (in thousands):

Balance as of December 1, 2017	$9,573,870
Net income	1,246,243
Reissuance of treasury stock	(348,729)
Adjustments to equity as a result of the Tax Act	(318)

Balance as of June 1, 2018	$10,471,066

Table of Contents

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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.

The components of accumulated other comprehensive income (loss) and activity, net of related taxes, as of June 1, 2018 were as follows (in thousands):

	December 1, 2017	Increase / Decrease	Reclassification Adjustments	June 1, 2018
Net unrealized gains / losses on available-for-sale securities:				
Unrealized gains on available-for-sale securities	$2,704	$(1,865)	$ (189)	$650
Unrealized losses on available-for-sale securities	(14,220)	(23,004)	386	(36,838)
Total net unrealized gains / losses on available-for-sale securities	(11,516)	(24,869)	197 [1]	(36,188)
Net unrealized gains / losses on derivative instruments designated as hedging instruments	(3,367)	29,767	(2,177) [2]	24,223
Cumulative foreign currency translation adjustments	(96,938)	(20,327)	—	(117,265)
Total accumulated other comprehensive income (loss), net of taxes	$(111,821)	$(15,429)	$ (1,980)	$(129,230)

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

(2) Reclassification adjustments for gains / losses on derivative instruments are classified in revenue.

The following table sets forth the taxes related to each component of other comprehensive income for the three and six months ended June 1, 2018 and June 2, 2017 (in thousands):

	Three Months		Six Months	
	2018	2017	2018	2017
Available-for-sale securities:				
Unrealized gains / losses	$—	$40	$—	$288
Reclassification adjustments	—	—	—	(110)
Subtotal available-for-sale securities	—	40	—	178
Derivatives designated as hedging instruments:				
Reclassification adjustments on derivative instruments	(100)	(149)	(1,626)	(433)
Foreign currency translation adjustments	—	1,261	(1,742)	1,647
Total taxes, other comprehensive income	$(100)	$1,152	$(3,368)	$1,392

23

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Stock Repurchase Program

To facilitate our stock repurchase program, designed to return value to our stockholders and minimize dilution from stock issuances, we may repurchase shares in the open market or enter into structured repurchase agreements with third parties. In January 2017, our Board of Directors approved our current stock repurchase program granting us authority to repurchase up to $2.5 billion in common stock through the end of fiscal 2019. In May 2018, our Board of Directors granted us another authority to repurchase up to $8 billion in common stock through the end of fiscal 2021. During the six months ended June 1, 2018 and June 2, 2017, we entered into several structured stock repurchase agreements with large financial institutions, whereupon we provided them with prepayments totaling $1 billion and $500 million, respectively. We enter into these agreements in order to take advantage of repurchasing shares at a guaranteed discount to the Volume Weighted Average Price ("VWAP") of our common stock over a specified period of time. We only enter into such transactions when the discount that we receive is higher than the foregone return on our cash prepayments to the financial institutions. There were no explicit commissions or fees on these structured repurchases. Under the terms of the agreements, there is no requirement for the financial institutions to return any portion of the prepayment to us.

The financial institutions agree to deliver shares to us at monthly intervals during the contract term. The parameters used to calculate the number of shares deliverable are: the total notional amount of the contract, the number of trading days in the contract, the number of trading days in the interval and the average VWAP of our stock during the interval less the agreed upon discount. During the six months ended June 1, 2018, we repurchased approximately 4.3 million shares at an average price of $208.69 through structured repurchase agreements entered into during fiscal 2017 and the six months ended June 1, 2018. During the six months ended June 2, 2017 we repurchased approximately 4.3 million shares at an average price of $118.00 through structured repurchase agreements entered into during fiscal 2016 and the six months ended June 2, 2017.

For the six months ended June 1, 2018, 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 June 1, 2018 were excluded from the computation of earnings per share. As of June 1, 2018, $211.2 million of prepayment remained under this agreement.

Subsequent to June 1, 2018, as part of the $2.5 billion stock repurchase authority approved in January 2017, we entered into a structured stock repurchase agreement with a large financial institution whereupon we provided them with a prepayment of $750 million. This amount will be classified as treasury stock on our condensed consolidated balance sheets. Upon completion of the $750 million stock repurchase agreement, $150 million remains under the $2.5 billion authority. We have not drawn from our new $8 billion authority as of the issuance of these financial statements.

NOTE 11. NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted net income per share for the three and six months ended June 1, 2018 and June 2, 2017 (in thousands, except per share data):

	Three Months		Six Months	
	2018	2017	2018	2017
Net income	$663,167	$374,390	$1,246,243	$772,836
Shares used to compute basic net income per share	491,914	494,371	491,993	494,492
Dilutive potential common shares:				
Unvested restricted stock units and performance share awards	6,212	5,637	7,019	6,175
Stock options	126	343	154	365
Shares used to compute diluted net income per share	498,252	500,351	499,166	501,032

Basic net income per share	$1.35	$0.76	$2.53	$1.56
Diluted net income per share	$1.33	$0.75	$2.50	$1.54

24

Table of Contents

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 12. COMMITMENTS AND CONTINGENCIES

Royalties

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

Indemnifications

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

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

Legal Proceedings

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

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

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

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

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 13. 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 effective interest rate including the discount and issuance costs is 4.92%. Interest is payable semi-annually, in arrears, on February 1 and August 1, and commenced on August 1, 2010.

In June 2014, we entered into interest rate swaps with a total notional amount of $900 million designated as a fair value hedge related to our 2020 Notes. The interest rate swaps effectively convert the fixed interest rate on our 2020 Notes to a floating interest rate based on LIBOR. Under the terms of the swap, we will pay monthly interest at the one-month LIBOR interest rate 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 effective interest rate including the discount, issuance costs and interest rate agreement is 3.67%. Interest is payable semi-annually, in arrears on February 1 and August 1, and commenced on August 1, 2015.

As of June 1, 2018, our outstanding notes payable consist of the 2020 Notes and 2025 Notes (the "Notes") with a total carrying value of $1.87 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 total fair value of the Notes was $1.91 billion as of June 1, 2018 and excludes the effect of the fair value hedge of the 2020 Notes for which we entered into interest rate swaps as described above.

The Notes rank equally with our other unsecured and unsubordinated indebtedness. We may redeem the Notes at any time, subject to a make-whole premium. In addition, upon the occurrence of certain change of control triggering events, we may be required to repurchase the Notes, at a price equal to 101% of their principal amount, plus accrued and unpaid interest to the date of repurchase. The Notes also include covenants that limit our ability to grant liens on assets and to enter into sale and leaseback transactions, subject to significant allowances. As of June 1, 2018, we were in compliance with all of the covenants.

In February 2018, 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. 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.

Table of Contents

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 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 June 1, 2018, there were no outstanding borrowings under this Credit Agreement and we were in compliance with all covenants.

NOTE 14. NON-OPERATING INCOME (EXPENSE)

Non-operating income (expense) for the three and six months ended June 1, 2018 and June 2, 2017 included the following (in thousands):

	Three Months		Six Months	
	2018	2017	2018	2017
Interest and other income (expense), net:				
Interest income	$25,771	$15,216	$48,401	$29,373
Foreign exchange gains (losses)	(14,222)	(10,349)	(20,111)	(17,480)
Realized gains on fixed income investment	6	356	190	650
Realized losses on fixed income investment	(81)	(110)	(386)	(244)
Other	125	41	177	61
Interest and other income (expense), net	$11,599	$5,154	$28,271	$12,360
Interest expense	$(20,363)	$(18,347)	$(40,262)	$(36,477)
Investment gains (losses), net:				
Realized investment gains	$503	$431	$4,497	$2,390
Unrealized investment gains	576	1,298	—	1,896
Unrealized investment losses	—	—	(422)	—
Investment gains (losses), net	$1,079	$1,729	$4,075	$4,286
Non-operating income (expense), net	$(7,685)	$(11,464)	$(7,916)	$(19,831)

NOTE 15. 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.

Effective in fiscal 2018, our business organized into three reportable segments: Digital Media, Digital Experience (formerly Digital Marketing), and Publishing (formerly Print and Publishing). These segments provide our senior management with a comprehensive financial view of our key businesses. Our segments are aligned around our two strategic growth opportunities described above, placing our Publishing business in a third segment that contains some of our mature products and solutions.

Table of Contents

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Additionally, in the first quarter of fiscal 2018, we moved our legacy enterprise offerings—Adobe Connect web conferencing platform and Adobe LiveCycle, an enterprise document and forms platform—from our Digital Experience segment into Publishing, in order to more closely align our Digital Experience business with the strategic growth opportunity. Prior year information in the tables below have been reclassified to reflect this change.

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 Experience—Our Digital Experience 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.
- Publishing—Our Publishing segment addresses market opportunities ranging from the diverse authoring and publishing needs of technical and business publishing to our legacy type and OEM printing businesses. It also includes our web conferencing and document and forms platforms effective the first quarter of fiscal 2018.

Our segment results for the three months ended June 1, 2018 and June 2, 2017 were as follows (dollars in thousands):

	Digital Media	Digital Experience	Publishing	Total
Three months ended June 1, 2018				
Revenue	$1,546,424	$585,952	$62,984	$2,195,360
Cost of revenue	54,760	220,696	5,888	281,344
Gross profit	$1,491,664	$365,256	$57,096	$1,914,016
Gross profit as a percentage of revenue	96 %	62 %	91 %	87 %
Three months ended June 2, 2017				
Revenue	$1,211,988	$495,415	$64,787	$1,772,190
Cost of revenue	58,350	175,164	5,846	239,360
Gross profit	$1,153,638	$320,251	$58,941	$1,532,830
Gross profit as a percentage of revenue	95 %	65 %	91 %	86 %

Our segment results for the six months ended June 1, 2018 and June 2, 2017 were as follows (dollars in thousands):

	Digital Media	Digital Experience	Publishing	Total
Six months ended June 1, 2018				
Revenue	$3,006,985	$1,140,059	$127,263	$4,274,307
Cost of revenue	110,229	419,488	10,529	540,246
Gross profit	$2,896,756	$720,571	$116,734	$3,734,061
Gross profit as a percentage of revenue	96 %	63 %	92 %	87 %
Six months ended June 2, 2017				
Revenue	$2,350,067	$972,687	$131,082	$3,453,836
Cost of revenue	113,402	351,927	11,368	476,697
Gross profit	$2,236,665	$620,760	$119,714	$2,977,139
Gross profit as a percentage of revenue	95 %	64 %	91 %	86 %

Table of Contents

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 2017. 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 our products and services directly to enterprise customers through our sales force and certain local field offices. We license our products to end users through app stores and our own website at www.adobe.com. We offer many of our products via a Software-as-a-Service ("SaaS") model or a managed services model (both of which are referred to as hosted or cloud-based) as well as through term subscription and pay-per-use models. We also distribute certain products and services through a network of distributors, value-added resellers ("VARs"), systems integrators ("SIs"), independent software vendors ("ISVs"), retailers, software developers and original equipment manufacturers ("OEMs"). In addition, we license our technology to hardware manufacturers, software developers and service providers for use in their products and solutions. Our products run on personal and server-based computers, as well as on smartphones, tablets and other devices, depending on the product. We have operations in the Americas, Europe, Middle East and Africa ("EMEA") and Asia-Pacific ("APAC").

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

OPERATIONS OVERVIEW

For our second quarter of fiscal 2018, we reported strong financial results consistent with the continued execution of our long-term plans for our two strategic growth areas, Digital Media and Digital Experience (formerly Digital Marketing), while continuing to market and license a broad portfolio of products and solutions.

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

We offer Creative Cloud for individuals, students, teams and enterprises. We expect Creative Cloud will drive sustained long-term revenue growth through a continued expansion of our customer base by acquiring new users on account of low cost of entry and delivery of additional features and value to Creative Cloud, as well as keeping existing customers current on our latest release. We have also built out a marketplace for Creative Cloud subscribers to enable the delivery and purchase of stock content

Table of Contents

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

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

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

Annualized Recurring Revenue ("ARR") is currently the key performance metric our management uses to assess the health and trajectory of our overall Digital Media segment. ARR should be viewed independently of revenue, deferred revenue 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 fiscal 2018 are based on currency rates set at the start of fiscal 2018 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 second quarter of fiscal 2018 was $5.37 billion, up from $4.77 billion at the end of fiscal 2017. Document Cloud ARR exiting the second quarter of fiscal 2018 was $694 million, up from $614 million at the end of fiscal 2017. Total Digital Media ARR grew to $6.06 billion at the end of the second quarter of fiscal 2018, up from $5.39 billion at the end of fiscal 2017.

Our success in driving growth in ARR has positively affected our revenue growth. Creative revenue in the second quarter of fiscal 2018 was $1.30 billion, up from $1.01 billion in the second quarter of fiscal 2017, representing 29% year-over-year growth. Document Cloud revenue in the second quarter of fiscal 2018 was $243.0 million, up from $199.9 million in the second quarter of fiscal 2017 as we continue to transition Document Cloud to a subscription-based model. Total Digital Media segment revenue grew to $1.55 billion in the second quarter of fiscal 2018, up from $1.21 billion in the second quarter of fiscal 2017, representing 28% year-over-year growth.

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

30

Our hierarchy of solutions in the Digital Experience segment, available in our Adobe Experience Cloud, consists of the following cloud offerings:

- Adobe Marketing Cloud—provides an integrated set of solutions to help marketers differentiate their brands and engage their customers, helping businesses manage, personalize, and orchestrate campaigns and customer journeys; includes Adobe Experience Manager ("AEM"), Adobe Campaign, Adobe Target, Adobe Social and Adobe Primetime.
- Adobe Analytics Cloud—enables businesses to move from insights to actions in real time by uniquely integrating audiences as the core system of intelligence for the enterprise; makes data available across all Adobe clouds through the capture, aggregation, rationalization and understanding of vast amounts of disparate data and then translating that data into singular customer profiles; includes Adobe Analytics and Adobe Audience Manager.
- Adobe Advertising Cloud—delivers an end-to-end platform for managing advertising across traditional TV and digital formats, and simplifies the delivery of video, display and search advertising across channels and screens; combines capabilities from Adobe Media Optimizer ("AMO") and Adobe's acquisition of TubeMogul during the first quarter of fiscal 2017.

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

We utilize a direct sales force to market and license our Adobe Experience Cloud solutions, as well as an extensive ecosystem of partners, including marketing agencies, systems integrators and independent software vendors that help license and deploy our solutions to their customers. We have made significant investments to broaden the scale and size of all of these routes to market, and our recent financial results reflect the success of these investments. We achieved record Adobe Experience Cloud revenue of $586.0 million in the second quarter of fiscal 2018, representing 18% year-over-year growth. Driving the increase in Adobe Experience Cloud revenue was the increase in subscription revenue which grew to $469.4 million in the second quarter of fiscal 2018 from $377.1 million in the second quarter of fiscal 2017, representing 24% year-over-year growth.

In June 2018, we completed our acquisition of Magento Commerce ("Magento") and we will begin to integrate Magento into our Digital Experience business in the third quarter of fiscal 2018. We expect that the addition of Magento and continued demand across our portfolio of Adobe Experience Cloud solutions will drive revenue growth in future years.

In the first quarter of fiscal 2018, in order to more closely align our Digital Experience segment with the strategic growth opportunity, we moved two legacy enterprise offerings, LiveCycle and Connect, from our Digital Experience segment to our Publishing segment.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

We believe that the assumptions, judgments and estimates involved in the accounting for revenue recognition 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 six months ended June 1, 2018, 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 1, 2017.

Table of Contents

Recent Accounting Pronouncements

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

RESULTS OF OPERATIONS

Financial Performance Summary for the Second Quarter of Fiscal 2018

- Total Digital Media ARR of approximately $6.06 billion as of June 1, 2018 increased by $679 million, or 13%, from $5.39 billion as of December 1, 2017. The change in our Digital Media ARR is primarily due to strong adoption of our Creative Cloud and Adobe Document Cloud subscription offerings.
- Creative revenue during the three months ended June 1, 2018 of $1.30 billion increased by $291.3 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 Experience Cloud revenue of $586.0 million during the three months ended June 1, 2018 increased by $90.6 million, or 18%, compared with the year-ago period. The increase was primarily due to the increase in subscription revenue across our offerings.
- Our total deferred revenue of $2.63 billion as of June 1, 2018 increased by $139.7 million, or 6%, from $2.49 billion as of December 1, 2017 primarily due to increases in new contracts and the timing of renewals for our Digital Experience hosted service offerings.
- Cost of revenue of $281.3 million during the three months ended June 1, 2018 increased by $42.0 million, or 18%, compared with the year-ago period primarily due to increases in media costs associated with our Advertising Cloud offerings, and hosting services and data center costs.
- Operating expenses of $1.22 billion during the three months ended June 1, 2018 increased by $186.8 million, or 18%, compared with the year-ago period primarily due to increases in stock-based compensation expenses and base compensation costs associated with headcount growth.
- Net income of $663.2 million during the three months ended June 1, 2018 increased by $288.8 million, or 77%, compared with the year-ago period primarily due to increases in subscription revenue and, to a lesser extent, the decrease in the provision for income taxes.
- Net cash flow from operations of $1.97 billion during the six months ended June 1, 2018 increased by $590.8 million, or 43%, compared with the year-ago period primarily due to higher net income.

Revenue for the Three and Six Months Ended June 1, 2018 and June 2, 2017 (dollars in millions)

	Three Months			Six Months		
	2018	2017	% Change	2018	2017	% Change
Subscription	$1,923.1	$1,483.7	30 %	$3,716.5	$2,867.5	30 %
Percentage of total revenue	88 %	84 %		87 %	83 %	
Product	151.0	171.5	(12)%	322.6	354.9	(9)%
Percentage of total revenue	7 %	10 %		8 %	10 %	
Services and support	121.3	117.0	4 %	235.2	231.4	2 %
Percentage of total revenue	5 %	6 %		5 %	7 %	
Total revenue	$2,195.4	$1,772.2	24 %	$4,274.3	$3,453.8	24 %

(*) Percentage is less than 1%.

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 Experience 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.

32

Table of Contents

As described in Note 15 of our notes to condensed consolidated financial statements, we have the following reportable segments: Digital Media, Digital Experience and Publishing. Subscription revenue by reportable segment for the three and six months ended June 1, 2018 and June 2, 2017 is as follows (dollars in millions):

	Three Months			Six Months		
	2018	2017	% Change	2018	2017	% Change
Digital Media	$1,425.9	$1,082.4	32 %	$2,760.6	$2,089.2	32 %
Digital Experience	469.4	377.1	24 %	900.3	730.0	23 %
Publishing	27.8	24.2	15 %	55.6	48.3	15 %
Total subscription revenue	$1,923.1	$1,483.7	30 %	$3,716.5	$2,867.5	30 %

Our services and support revenue is comprised of consulting, training and maintenance and support, primarily related to the licensing of our enterprise products and the sale of our hosted Adobe Experience 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			Six Months		
	2018	2017	% Change	2018	2017	% Change
Digital Media	$1,546.4	$1,212.0	28 %	$3,006.9	$2,350.1	28 %
Percentage of total revenue	70 %	68 %		70 %	68 %	
Digital Experience	586.0	495.4	18 %	1,140.1	972.7	17 %
Percentage of total revenue	27 %	28 %		27 %	28 %	
Publishing	63.0	64.8	(3)%	127.3	131.0	(3)%
Percentage of total revenue	3 %	4 %		3 %	4 %	
Total revenue	$2,195.4	$1,772.2	24 %	$4,274.3	$3,453.8	24 %

Digital Media

Revenue from Digital Media increased $334.4 million and $656.8 million during the three and six months ended June 1, 2018, as compared to the three and six months ended June 2, 2017 primarily driven by increases in revenue associated with our Creative offerings.

Revenue associated with our Creative offerings, which includes our Creative Cloud, perpetually licensed Creative and stock photography offerings, increased during the three and six months ended June 1, 2018 as compared to the three and six months ended June 2, 2017. The increase was primarily due to an increase in subscription revenue associated with our Creative Cloud offerings driven by increases in individual, team and enterprise subscriptions. To a lesser extent, increases in revenue associated with our stock photography offerings also contributed to the increase in revenue.

Adobe Document Cloud revenue, which includes our Acrobat product family and Adobe Sign service, increased during the three and six months ended June 1, 2018 as compared to the year ago periods primarily due to increases in Document Cloud subscription revenue.

Digital Experience

Revenue from Digital Experience increased $90.6 million and $167.4 million during the three and six months ended June 1, 2018, as compared to the three and six months ended June 2, 2017 primarily due to increases in subscription revenue associated with our offerings. Continued adoption of our AEM offerings which is part of our Marketing Cloud and growth in our Advertising Cloud largely contributed to subscription revenue year-over-year increases.

33

Table of Contents

Geographical Information (dollars in millions)

	Three Months			Six Months		
	2018	2017	% Change	2018	2017	% Change
Americas	$1,239.6	$1,026.7	21 %	$2,410.2	$2,002.5	20 %
Percentage of total revenue	57 %	58 %		57 %	58 %	
EMEA	621.8	475.9	31 %	1,209.1	935.0	29 %
Percentage of total revenue	28 %	27 %		28 %	27 %	
APAC	334.0	269.6	24 %	655.0	516.3	27 %
Percentage of total revenue	15 %	15 %		15 %	15 %	
Total revenue	$2,195.4	$1,772.2	24 %	$4,274.3	$3,453.8	24 %

Overall revenue during the three and six months ended June 1, 2018 increased in all geographic regions as compared to the three and six months ended June 2, 2017 primarily due to increases in Digital Media and Digital Experience revenue. Within each geographic region, the fluctuations in revenue by reportable segment were attributable to the factors noted in the segment information above.

Foreign currency impacts to revenue for the three and six months ended June 1, 2018 are shown below.

(in millions)	Three Months	Six Months
Revenue impact:	Increase/ (Decrease)	
Euro	$35.9	$ 62.5
British Pound	9.4	13.7
Japanese Yen	1.8	1.2
Other currencies	4.2	9.6
Total revenue impact	51.3	87.0
Hedging impact:		
Euro	0.3	0.3
Japanese Yen	—	1.0
Total hedging impact	0.3	1.3
Total impact	$51.6	$ 88.3

During the three and six months ended June 1, 2018, the relative weakness of the U.S. Dollar caused revenue in EMEA and other currencies measured in U.S. Dollar equivalents to increase as compared to the year-ago periods.

Cost of Revenue for the Three and Six Months Ended June 1, 2018 and June 2, 2017 (dollars in millions)

	Three Months			Six Months		
	2018	2017	% Change	2018	2017	% Change
Subscription	186.3	$142.7	31 %	$351.0	$283.9	24 %
Percentage of total revenue	8 %	8 %		8 %	8 %	
Product	10.8	15.5	(30)%	23.7	29.8	(20)%
Percentage of total revenue	— %	1 %		1 %	1 %	
Services and support	84.2	81.2	4 %	165.5	163.0	2 %
Percentage of total revenue	4 %	5 %		4 %	5 %	
Total cost of revenue	$281.3	$239.4	18 %	$540.2	$476.7	13 %

Table of Contents

Subscription

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

Cost of subscription revenue increased during the three and six months ended June 1, 2018 as compared to the three and six months ended June 2, 2017 due to the following:

	% Change 2018-2017 QTD	% Change 2018-2017 YTD
Media costs	18 %	11 %
Hosting services and data center costs	5	5
Royalty costs	5	5
Incentive compensation, cash and stock-based	2	3
Base compensation and related benefits associated with headcount	—	1
Various individually insignificant items	1	(1)
Total change	31 %	24 %

Product

Cost of product revenue includes product packaging, third-party royalties, excess and obsolete inventory, 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 and six months ended June 1, 2018 as compared to the three and six months ended June 2, 2017 primarily due to decreases in 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.

Cost of services and support revenue increased slightly during the three and six months ended June 1, 2018 as compared to the three and six months ended June 2, 2017 primarily due to increases in stock-based compensation expenses.

Operating Expenses for the Three and Six Months Ended June 1, 2018 and June 2, 2017 (dollars in millions)

	Three Months			Six Months		
	2018	2017	% Change	2018	2017	% Change
Research and development	$374.1	$299.4	25 %	$722.9	$584.5	24 %
Percentage of total revenue	17 %	17 %		17 %	17 %	
Sales and marketing	646.2	553.1	17 %	1,227.1	1,073.4	14 %
Percentage of total revenue	29 %	31 %		29 %	31 %	
General and administrative	178.0	156.9	13 %	348.5	307.7	13 %
Percentage of total revenue	8 %	9 %		8 %	9 %	
Amortization of purchased intangibles	17.2	19.3	(11)%	34.3	38.5	(11)%
Percentage of total revenue	1 %	1 %		1 %	1 %	
Total operating expenses	$1,215.5	$1,028.7	18 %	$2,332.8	$2,004.1	16 %

Table of Contents

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

The increases in research and development, sales and marketing and general and administrative expenses during the three and six months ended June 1, 2018 as compared to the three and six months ended June 2, 2017 were primarily due to increases in stock-based compensation expenses and base compensation and related benefits costs associated with headcount growth.

Research and Development

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

Research and development expenses increased during the three and six months ended June 1, 2018 as compared to the three and six months ended June 2, 2017 due to the following:

	% Change 2018-2017 QTD		% Change 2018-2017 YTD	
Incentive compensation, cash and stock-based	13	%	13	%
Base compensation and related benefits associated with headcount	7		8	
Professional and consulting fees	2		2	
Various individually insignificant items	3		1	
Total change	25	%	24	%

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 as a percentage of revenue during the three and six months ended June 1, 2018 decreased year over year primarily due to our revenue growing at a faster pace compared with the increases in sales and marketing expenses.

Sales and marketing expenses increased during the three and six months ended June 1, 2018 as compared to the three and six months ended June 2, 2017 due to the following:

	% Change 2018-2017 QTD		% Change 2018-2017 YTD	
Incentive compensation, cash and stock-based	5	%	5	%
Base compensation and related benefits associated with headcount	4		4	
Marketing spend related to offering launches and overall marketing efforts	3		2	
Professional and consulting fees	1		—	
Various individually insignificant items	4		3	
Total change	17	%	14	%

Table of Contents

General and Administrative

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

General and administrative expenses increased during the three and six months ended June 1, 2018 as compared to the three and six months ended June 2, 2017 due to the following:

	% Change 2018-2017 QTD	% Change 2018-2017 YTD
Professional and consulting fees	10 %	7 %
Incentive compensation, cash and stock based	2	3
Various individually insignificant items	1	3
Total change	13 %	13 %

Professional and consulting fees increased during the three and six months ended June 1, 2018 as compared to the three and six months ended June 2, 2017 primarily due to incurred transaction costs associated with our acquisition of Magento, which closed subsequent to June 1, 2018.

Non-Operating Income (Expense), Net for the Three and Six Months Ended June 1, 2018 and June 2, 2017 (dollars in millions)

	Three Months			Six Months		
	2018	2017	% Change	2018	2017	
Interest and other income (expense), net	$11.6	$5.2	**	$28.3	$12.4	**
Percentage of total revenue	1 %	*		1 %	*	
Interest expense	(20.4)	(18.4)	11 %	(40.3)	(36.5)	10 %
Percentage of total revenue	(1)%	(1)%		(1)%	(1)%	
Investment gains (losses), net	1.1	1.7	(35)%	4.1	4.3	(5)%
Percentage of total revenue	*	*		*	*	
Total non-operating income (expense), net	$(7.7)	$(11.5)	(33)%	$(7.9)	$(19.8)	(60)%

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

Interest and Other Income (Expense), Net

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

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 13 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 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.

Table of Contents

Provision for Income Taxes for the Three and Six Months Ended June 1, 2018 and June 2, 2017 (dollars in millions)

	Three Months			Six Months		
	2018	2017	% Change	2018	2017	% Change
Provision	$27.6	$118.2	(77)%	$147.1	$180.4	(18)%
Percentage of total revenue	1 %	7 %		3 %	5 %	
Effective tax rate	4 %	24 %		11 %	19 %	

Our effective tax rate decreased by 20 percentage points and eight percentage points for the three and six months ended June 1, 2018, respectively, as compared to the three and six months ended June 2, 2017. The lower effective tax rates were primarily due to the effects of the Tax Act enacted on December 22, 2017 and a change to our corporate tax structure from which we serve our foreign customers that provided us the ability to deduct more expenses against our earnings in the U.S.

The Tax Act transitions the U.S. tax system to a new territorial system and lowers the statutory corporate tax rate from 35% to 21%. Reduction of the statutory federal corporate tax rate to 21% became effective on January 1, 2018. In fiscal 2018, our statutory federal corporate tax rate is a blended rate of 22.2%, which will be reduced to 21% in fiscal 2019 and thereafter.

We have made provisional estimates of the accounting impacts of certain provisions of the Tax Act. We continue to obtain, analyze and interpret additional guidance issued and will revise our estimates as additional information becomes available. The provisional accounting impacts may change in future reporting periods until the accounting is finalized, which will occur no later than one year from the enactment date.

As part of the adoption of a new territorial tax system applicable to foreign earnings, the Tax Act requires us to pay a one-time tax (“transition tax”) on previously untaxed earnings and profits of our foreign subsidiaries at a rate of 15.5% on such earnings represented by foreign cash and certain other net current assets, and 8% on the remaining earnings, in each case reduced by certain foreign tax credits. In the first quarter of fiscal 2018, we recorded a provisional transition tax expense of $118 million on deferred foreign earnings, which was comprised of $86 million for fiscal 2018 plus other ancillary effects recorded in the first fiscal quarter, long-term income taxes payable of $533 million, and a reduction in our deferred tax liability of $415 million. As a result of a change to our corporate tax structure, we updated our Tax Act calculation during the three months ended June 1, 2018. This included an additional provisional transition tax expense of $28 million on deferred foreign earnings, a decrease of deferred tax assets by $72 million which also included utilization of credits that we estimate will be available to reduce the transition tax, and a reduction of long-term income taxes payable by $44 million. We intend to elect to pay the federal transition tax over a period of eight years as permitted by the Tax Act. As a result, we reclassified $39 million from long-term income taxes payable to short-term income taxes payable for the first installment payment due in fiscal 2019.

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

See Note 8 for further information regarding the provision for income taxes and impacts related to the Tax Act on our financial statements.

Accounting for Uncertainty in Income Taxes

The gross liabilities for unrecognized tax benefits excluding interest and penalties were $156.2 million and $164.9 million as of June 1, 2018 and June 2, 2017, respectively. If the total unrecognized tax benefits benefits at June 1, 2018 and June 2, 2017 were recognized in the future, $111.2 million and $135.7 million of unrecognized tax benefits would decrease the respective effective tax rates, which were net of estimated $45.0 million and $29.2 million federal benefits related to deducting certain payments on future state tax returns.

The combined amount of accrued interest and penalties related to tax positions taken on our tax returns were approximately $22.9 million and $19.5 million for the six months ended June 1, 2018 and June 2, 2017, respectively. These amounts were included in long-term income taxes payable in their respective years.

The timing of the resolution of income tax examinations is highly uncertain as are the amounts and timing of tax payments that are part of any audit settlement process. These events could cause large fluctuations in the balance sheet classification of 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 $35.0 million.

LIQUIDITY AND CAPITAL RESOURCES

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

(in millions)	As of June 1, 2018	December 1, 2017
Cash and cash equivalents	$2,988.0	$ 2,306.1
Short-term investments	$3,346.1	$ 3,513.7
Working capital	$4,012.5	$ 3,720.4
Stockholders' equity	$8,705.6	$ 8,459.9

A summary of our cash flows is as follows:

(in millions)	Six Months Ended June 1, 2018	June 2, 2017
Net cash provided by operating activities	$1,966.0	$1,375.1
Net cash used for investing activities	(26.1)	(426.4)
Net cash used for financing activities	(1,258.6)	(645.9)
Effect of foreign currency exchange rates on cash and cash equivalents	0.6	2.8
Net increase in cash and cash equivalents	$681.9	$305.6

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

Cash Flows from Operating Activities

Net cash provided by operating activities of $1.97 billion for the six months ended June 1, 2018 was primarily comprised of net income plus the net effect of non-cash items, including an adjustment to deferred income taxes related to the Tax Act. The primary working capital sources of cash were net income coupled with an increase in income taxes payable, decrease in accounts receivable, and an increase in deferred revenue. The increase in income taxes payable was primarily driven by the provisional transition tax liability recorded pursuant to the Tax Act. The decrease in accounts receivable was primarily driven by improved revenue linearity. The increase in deferred revenue was principally due to increases in Digital Experience hosted services and Digital Media site and term licenses. The primary working capital use of cash was due to increases in prepaid expenses, which was primarily due to an increase in prepaid payroll and employee benefits.

Cash Flows from Investing Activities

Net cash used for investing activities of $26.1 million for the six months ended June 1, 2018 was primarily due to purchases of short-term investments and property and equipment, and an immaterial acquisition. These cash outflows were offset in part by proceeds from sales and maturities of short-term investments.

Cash Flows from Financing Activities

Net cash used for financing activities of $1.26 billion for the six months ended June 1, 2018 was primarily due to payments for our treasury stock repurchases and taxes related to net share settlement of equity awards, offset by proceeds from reissuance of treasury stock. 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 2018 due to changes in our planned cash outlay, including changes in incremental costs such as direct and integration costs related to our acquisitions.

As a result of the Tax Act enacted on December 22, 2017, all historical undistributed foreign subsidiary earnings were subject to a mandatory one-time transition tax. For the three months ended March 2, 2018, we recorded a provisional transition tax liability of $533 million and state taxes of $3 million. During the three months ended June 1, 2018, we recorded an adjustment to the provisional transition tax liability resulting in an adjusted balance of $489 million. Under the Tax Act, the transition tax is payable over eight years beginning in fiscal 2019, with 8% due in each of the first five years, 15% in year six, 20% in year seven, and 25% in year eight. As we repatriate the undistributed earnings of our foreign subsidiaries for use in the U.S., the earnings from our foreign subsidiaries will generally not be subject to U.S. federal tax. We continue to evaluate the impact of the Tax Act and the future cash needs of our global operations to determine the amount of foreign earnings that is not necessary to be permanently reinvested in our foreign subsidiaries.

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 June 1, 2018, there were no outstanding borrowings under this Credit Agreement and the entire $1 billion credit line remains available for borrowing.

As of June 1, 2018, 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.

Subsequent to June 1, 2018, we completed our acquisition of Magento, a privately-held commerce platform company, for approximately $1.68 billion in cash consideration, as well as the assumption of certain employee equity awards. See Note 2 of our Notes to Consolidated Financial Statements for further information regarding this acquisition.

Our short-term investment portfolio is primarily invested in corporate debt securities, 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.

Stock Repurchase Program

To facilitate our stock repurchase program, designed to return value to our stockholders and minimize dilution from stock issuances, we may repurchase shares in the open market or enter into structured repurchase agreements with third parties. In January 2017, our Board of Directors approved our current stock repurchase program granting us authority to repurchase up to $2.5 billion in common stock through the end of fiscal 2019. In May 2018, our Board of Directors granted us another authority to repurchase up to $8 billion in common stock through the end of fiscal 2021.

During the six months ended June 1, 2018 and June 2, 2017, we entered into several structured stock repurchase agreements with large financial institutions, whereupon we provided them with prepayments totaling $1.0 billion and $500 million, respectively. We enter into these agreements in order to take advantage of repurchasing shares at a guaranteed discount to the Volume Weighted Average Price ("VWAP") of our common stock over a specified period of time. We only enter into such transactions when the discount that we receive is higher than the foregone return on our cash prepayments to the financial institutions. There were no explicit commissions or fees on these structured repurchases. Under the terms of the agreements, there is no requirement for the financial institutions to return any portion of the prepayment to us.

The financial institutions agree to deliver shares to us at monthly intervals during the contract term. The parameters used to calculate the number of shares deliverable are: the total notional amount of the contract, the number of trading days in the contract, the number of trading days in the interval and the average VWAP of our stock during the interval less the agreed upon discount. During the six months ended June 1, 2018, we repurchased approximately 4.3 million shares at an average price of $208.69 through structured repurchase agreements entered into during fiscal 2017 and the six months ended June 1, 2018. During the six months ended June 2, 2017 we repurchased approximately 4.3 million shares at an average price of $118.00 through structured repurchase agreements entered into during fiscal 2016 and the six months ended June 2, 2017.

For the six months ended June 1, 2018, 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 June 1, 2018 were excluded from the computation of earnings per share. As of June 1, 2018, $211.2 million of prepayment remained under this agreement.

Subsequent to June 1, 2018, as part of the $2.5 billion stock repurchase authority approved in January 2017, we entered into a structured stock repurchase agreement with a large financial institution whereupon we provided them with a prepayment of $750 million. This amount will be classified as treasury stock on our condensed consolidated balance sheets. Upon completion of the $750 million stock repurchase agreement, $150 million remains under the $2.5 billion authority. We have not drawn from our new $8 billion authority as of the issuance of these financial statements.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Our principal commitments as of June 1, 2018 consist of obligations under operating leases, royalty agreements and various service agreements. There have been no material changes in those obligations during the six months ended June 1, 2018. See Notes 12 and 13 of our notes to condensed consolidated financial statements for more detailed information regarding our contractual commitments.

Senior Notes

Interest on our senior notes is payable semi-annually, in arrears on February 1 and August 1. At June 1, 2018, our maximum commitment for interest payments was $313.0 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 June 1, 2018, we were in compliance with this covenant. We believe this covenant will not impact our credit or cash in the coming fiscal year or restrict our ability to execute our business plan. Our senior notes do not contain any financial covenants.

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.

Royalties

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

Indemnifications

In the normal course of business, we provide indemnifications of varying scope to customers 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 six months ended June 1, 2018, as compared with those discussed in our Annual Report on Form 10-K for the fiscal year ended December 1, 2017.

ITEM 4. CONTROLS AND PROCEDURES

Based on their evaluation as of June 1, 2018, 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 June 1, 2018 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 12 for information regarding our legal proceedings.

ITEM 1A. RISK FACTORS

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

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

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

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

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

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

For additional information regarding our competition and the risks arising out of the competitive environment in which we operate, see the section entitled “Competition” contained in Part I. Item 1 of our Annual Report on Form 10-K for the fiscal year ended December 1, 2017.

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

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

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

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

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

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

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

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

We generally recognize revenue from subscription offerings ratably over the terms of their subscription agreements, which range from 1 to 36 months. As a result, most of the subscription revenue we report in each quarter is the result of subscription agreements entered into during previous quarters. Any reduction in new or renewed subscriptions in a quarter may not be reflected in our revenue results until a later quarter. Declines in new or renewed subscriptions may decrease our revenue in future quarters.

Lower sales, reduced demand for our products and services, and increases in our attrition rate may not be fully reflected in our results of operations until future periods. Our subscription model could also make it difficult for us to rapidly increase our revenue from subscription-based or hosted services through additional sales in any period, as revenue from new customers will be recognized over the applicable subscription term.

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

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

Our Adobe Experience Cloud, Creative Cloud, and Document Cloud offerings typically involve subscription based offerings pursuant to product and service agreements. Revenue from our subscription customers is generally recognized ratably over the term of their agreements, which typically range from 1 to 36 months. Our customers have no obligation to renew their subscriptions for our services after the expiration of their initial subscription period, and customers may not renew their subscriptions at the same or higher level of service, for the same number of seats or for the same duration of time, if at all. Moreover, under certain circumstances, some of our customers have the right to cancel their agreements prior to the expiration of the terms. Our varied customer base combined with the flexibility we offer in the length of our subscription-based agreements complicates our ability to precisely forecast renewal rates. Therefore, we cannot provide assurance that we will be able to accurately predict future customer renewal rates.

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

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

We process and store significant amounts of employee and customer data, most of which is hosted by third-party service providers. A security incident impacting our own data centers or those controlled by our service providers may compromise the confidentiality, integrity or availability of this data. Unauthorized access to or disclosure of data stored by Adobe or our service providers may occur through break-ins, breaches of a 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 or recycled 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.

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

Much of our business relies on hardware and services that are hosted, managed, and controlled directly by Adobe or third-party service providers, including our online store at adobe.com, Creative Cloud, Document Cloud, and

Experience Cloud solutions. We do not have redundancy for all of our systems, many of our critical applications reside in only one of our data centers, and our disaster recovery planning may not account for all eventualities. If our business relationship with a third-party provider of hosting or content delivery services is negatively affected, or if one of our content delivery suppliers were to terminate its agreement with us, we might not be able to deliver the corresponding hosted offerings to our customers, which could subject us to reputational harm, costly and time intensive notification requirements, and cause us to lose customers and future business. Occasionally, we migrate data among data centers and to third-party hosted environments. If a transition among data centers or to third-party service providers encounters unexpected interruptions, unforeseen complexity, or unplanned disruptions despite precautions undertaken during the process, this may impair our delivery of products and services to customers and result in increased costs and liabilities, which may harm our operating results and our business.

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

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

Increasing regulatory focus on privacy issues and expanding laws 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 conduct business globally in countries that may 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. Government regulators, privacy advocates and class action attorneys are increasingly scrutinizing how companies collect, process, use, store, share and transmit personal data. This increased scrutiny may result in new interpretations of existing laws, thereby further impacting Adobe’s business. Globally, new laws, such as the General Data Protection Regulation (“GDPR”) in Europe, and industry self-regulatory codes have been enacted and more are being considered. While we have invested in GDPR readiness, these new laws, regulations and codes may affect our ability (and our enterprise customers’ ability) to reach current and prospective customers, to respond to both enterprise and individual customer requests under the laws (such as individual rights of access, correction, and deletion of their personal information), and to implement our business models effectively. These new laws may also impact our innovation and business drivers in developing new and emerging technologies (e.g., artificial intelligence and machine learning). These requirements, among others, may impact demand for our offerings and force us to bear the burden of more onerous obligations in our contracts. Any perception of our practices, products or services as a violation of individual privacy rights may subject us to public criticism, class action lawsuits, reputational harm, or investigations or claims by regulators, industry groups or other third parties, all of which could disrupt our business and expose us to increased liability. Additionally, we store information on behalf of our customers and if our customers fail to comply with contractual obligations or applicable laws, it could result in litigation or reputational harm to us.

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

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

These problems affect our products and services in particular because cyber-attackers tend to focus their efforts on popular offerings with a large user base, and we expect them to continue to do so. Critical vulnerabilities may be identified in some of our applications. 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, we could be subject to costly and time intensive notice requirements, and it may be necessary for us to take additional extraordinary measures and make additional expenditures to take appropriate responsive and preventative steps. Any of these events could adversely affect our revenue or margins. Moreover, delayed sales, lower margins or lost customers resulting from disruptions caused by cyber-attacks or preventative measures could adversely affect our financial results, stock price and reputation.

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

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

- inability to achieve the financial and strategic goals for the acquired and combined businesses;
- difficulty in, and the cost of, effectively integrating the operations, technologies, products or services, and personnel of the acquired business;
- entry into markets in which we have minimal prior experience and where competitors in such markets have stronger market positions;
- disruption of our ongoing business and distraction of our management and other employees from other opportunities and challenges;

Table of Contents

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

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

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 SEC and various bodies formed to interpret and create appropriate accounting principles. A change in these principles, how the principles are interpreted, or the adoption of new accounting principles can have a significant effect on our reported results, and could even retroactively affect previously reported transactions, and may require that we make significant changes to our systems, processes and controls.

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

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

Changes in tax rules and regulations, or interpretations thereof, may adversely affect our effective tax rates.
We are a United States-based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. The Tax Act, enacted into law on December 22, 2017, changes existing U.S. tax law applicable to us and includes adoption of a territorial tax system requiring us to incur a transition tax on previously untaxed earnings and profits of our foreign subsidiaries. A significant portion of our foreign earnings for the current fiscal year were earned by our Irish subsidiaries. As part of the adoption of a territorial tax system, the Tax Act also provides an exemption from federal income taxes for distributions from foreign subsidiaries made after December 31, 2017 that were not subject to the one-time transition tax. In addition, certain international provisions introduced in the Tax Act will be effective for us in fiscal 2019. These provisions and changes that we may make to our corporate tax structure could adversely affect our tax rate and cash flow in future years.

Our income tax expense has differed from the tax computed at the U.S. federal statutory income tax rate due primarily to discrete items and to tax on earnings from foreign operations. Unanticipated changes in our tax rates could affect our future results of operations. Our future effective tax rates 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, by unexpected negative changes in business and market conditions that could reduce certain tax benefits, or by changes in the valuation of our deferred tax assets and liabilities.

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

Moreover, we are subject to the continual examination of our income tax returns by the U.S. Internal Revenue Service (“IRS”) and other domestic and foreign tax authorities. These tax examinations are expected to focus on our intercompany transfer pricing practices as well as other matters. We regularly assess the likelihood of outcomes resulting from these examinations to determine the adequacy of our provision for income taxes and have reserved for adjustments that may result from these examinations. We cannot provide assurance that the final determination of any of these examinations will not have an adverse effect on our operating results and financial position.

The success of some of our product and service offerings depends on our ability to continue to attract and retain customers of and contributors to our online marketplaces for creative content.
The success of some of our product and service offerings, such as Adobe Stock, depends on our ability to continue to attract new customers and contributors to these online marketplaces for creative content, as well as our ability to continue to retain existing customers and contributors. An increase in paying customers has generally resulted in more content from contributors, which increases the size of our collection and in turn attracts new paying customers. We rely on the functionality and features of our online marketplaces, the size and content of our collection and the effectiveness of our marketing efforts to attract new customers and contributors and retain existing ones. New technologies may render the features of our online marketplaces obsolete, our collection may fail to grow as anticipated or our marketing efforts may be unsuccessful, any of which may adversely affect our results of operations.
We face various risks associated with our operating as a multinational corporation.
As a global business that generates approximately 44% of our total revenue from sales to customers outside of the Americas, we are subject to a number of risks, including:
- foreign currency fluctuations and controls;

- international and regional economic, political and labor conditions, including any instability or security concerns abroad;
- tax laws (including U.S. taxes on foreign subsidiaries);
- increased financial accounting and reporting burdens and complexities;

- changes in, or impositions of, legislative or regulatory requirements;
- changes in laws governing the free flow of data across international borders;
- failure of laws to protect our intellectual property rights adequately;
- inadequate local infrastructure and difficulties in managing and staffing international operations;
- delays resulting from difficulty in obtaining export licenses for certain technology, tariffs, quotas and other trade barriers;
- the imposition of governmental economic sanctions on countries in which we do business or where we plan to expand our business;
- costs and delays associated with developing products in multiple languages;
- operating in locations with a higher incidence of corruption and fraudulent business practices; and
- other factors beyond our control, such as terrorism, war, natural disasters and pandemics.

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

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

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

In addition, approximately 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.

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. Among our customers are government entities, including the U.S. federal government, and our revenue could decline if spending cuts impact the government's ability to purchase our products and services. Deterioration in economic conditions in any of the countries in which we do business could also cause slower or impaired collections on accounts receivable, which may adversely impact our liquidity and financial condition.

49

Table of Contents

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

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

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

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

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

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

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

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

Our operating results are subject to fluctuations in foreign currency exchange rates due to the global scope of our business. We attempt to mitigate a portion of these risks through foreign currency hedging based on our judgment of the appropriate trade-offs among risk, opportunity and expense. We regularly review our program to partially hedge our exposure to foreign currency fluctuations and make adjustments as necessary. Our hedging activities may not offset more than a portion of the adverse financial impact resulting from unfavorable movement in foreign currency exchange rates, which could adversely affect our financial condition or results of operations.

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

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

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

We contract with a number of software distributors and other strategic partners, none of which 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, the inability of such distributors to obtain credit to finance purchases of our products and services, or a delay in paying their obligations to us.

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

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

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

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

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

- shortfalls in, or changes in expectations about our revenue, margins, earnings, Annualized Recurring Revenue ("ARR"), sales of our Adobe Experience Cloud offerings, or other key performance metrics;

- changes in estimates or recommendations by securities analysts;
- whether our results meet analysts’ expectations;
- compression or expansion of multiples used by investors and analysts to value high technology SaaS companies;

- the announcement of new products or services, product enhancements, service introductions, strategic alliances or significant agreements by us or our competitors;
- the loss of large customers or our inability to increase sales to existing customers, retain customers or attract new customers;
- recruitment or departure of key personnel;
- variations in our or our competitors' results of operations, changes in the competitive landscape generally and developments in our industry;
- general socio-economic, political or market conditions; and
- unusual events such as significant acquisitions by us or our competitors, divestitures, litigation, regulatory actions and other factors, including factors unrelated to our operating performance.

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

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

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

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

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

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

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

We have issued $1.9 billion of notes in debt offerings and 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:

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

Our senior unsecured notes and senior unsecured 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.

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

Catastrophic events may disrupt our business.

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

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

While we seek to partner with organizations that mitigate their business risks associated with climate change, we recognize that there are inherent risks wherever business is conducted. Access to clean water and reliable energy in the communities where we conduct our business, whether for our offices or for our vendors, is a priority. Our major sites in California, Utah and India are vulnerable to prolonged droughts due to climate change. In the event of a natural disaster that disrupts business due to limited access to these resources, we have the potential to experience losses to our business, and added costs to resume operations.

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

Our cash equivalent and short-term investment portfolio as of June 1, 2018 consisted of corporate debt securities, foreign government 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.

Table of Contents

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 June 1, 2018, we had no material impairment charges associated with our short-term investment portfolio, and although we believe our current investment portfolio has little risk of material impairment, we cannot predict future market conditions, market liquidity or credit availability, and can provide no assurance that our investment portfolio will remain materially unimpaired.

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

Below is a summary of stock repurchases for the three months ended June 1, 2018. See Note 10 of our notes to condensed consolidated financial statements for information regarding our stock repurchase program.

Period	Shares Repurchased	Average Price 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]				$ 1,700,259
March 3, 2018—March 30, 2018				
Shares repurchased	468	$ 214.18	468	$ (100,259)
March 31, 2018—April 27, 2018				
Shares repurchased	1,153	$ 221.76	1,153	$ (255,556) [2]
April 28, 2018—June 1, 2018				
Shares repurchased	1,018	$ 229.02	1,018	$ (233,204) [2]
Additional repurchase authority granted[3]				$ 8,000,000
Total	2,639		2,639	$ 9,111,240

(1) In January 2017, the Board of Directors granted authority to repurchase up to $2.5 billion in common stock through the end of fiscal 2019.

(2) In March 2018, we entered into a structured stock repurchase agreement with a large financial institution whereupon we provided them with a prepayment of $700 million. As of June 1, 2018, approximately $211.2 million of the prepayment remained under this agreement.

(3) In May 2018, the Board of Directors approved a new stock repurchase program granting us authority to repurchase up to $8 billion in common stock through the end of fiscal 2021. The new stock repurchase program is similar to our previous $2.5 billion program.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

Table of Contents

ITEM 6. EXHIBITS
INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference** Form	Filing Date	Exhibit Number	SEC File No.	Filed Herewith
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 dated as of January 25, 2010 by and between Adobe Systems Incorporated and Wells Fargo Bank, National Association, as trustee	S-3	2/26/16	4.1	333-209764	
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	4/13/17	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 RSU Grant Notice and Award Agreement pursuant to 2003 Equity Incentive Plan*	8-K	1/26/18	10.6	000-15175	

10.3E	Form of Restricted Stock Agreement used in connection with the 2003 Equity Incentive Plan*	10-Q	10/7/04	10.11	000-15175
10.3F	2014 Performance Share Program pursuant to the 2003 Equity Incentive Plan*	8-K	1/29/14	10.2	000-15175

Table of Contents

Exhibit Number	Exhibit Description	Incorporated by Reference** Form	Filing Date	Exhibit Number	SEC File No.	Filed Herewith
10.3G	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	
10.3H	2015 Performance Share Program pursuant to the 2003 Equity Incentive Plan*	8-K	1/28/15	10.2	000-15175	
10.3I	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	
10.3J	2016 Performance Share Program pursuant to the 2003 Equity Incentive Plan*	8-K	1/29/16	10.2	000-15175	
10.3K	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	
10.3L	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	
10.3M	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	
10.3N	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	
10.3O	2017 Performance Share Program pursuant to the 2003 Equity Incentive Plan*	8-K	1/27/17	10.2	000-15175	
10.3P	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	
10.3Q	2018 Performance Share Program pursuant to the 2003 Equity Incentive Plan*	8-K	1/26/18	10.2	000-15175	
10.3R	Form of 2018 Performance Share Award Grant Notice and Award Agreement pursuant to 2017 Performance Share Program and 2003 Equity Incentive Plan*	8-K	1/26/18	10.3	000-15175	

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

56

Table of Contents

Exhibit Number	Exhibit Description	Incorporated by Reference** Form	Filing Date	Exhibit Number	SEC File No.	Filed Herewith
10.5	Retention Agreement between Adobe Systems Incorporated and Shantanu Narayen, effective December 5, 2014	8-K	12/11/14	10.2	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. 2008 Equity Incentive Plan and related forms***	10-K	2/27/09	10.10	000-52076	
10.11	Demdex, Inc. 2008 Stock Plan, as amended*	S-8	1/27/11	99.1	333-171902	
10.12	2014 Executive Annual Incentive Plan*	8-K	1/29/14	10.5	000-15175	
10.13	2015 Executive Annual Incentive Plan*	8-K	1/28/15	10.5	000-15175	
10.14	2016 Executive Annual Incentive Plan*	8-K	1/29/16	10.5	000-15175	
10.15	2016 Executive Cash Performance Bonus Plan*	8-K	1/29/16	10.4	000-15175	
10.16	2017 Executive Annual Incentive Plan*	8-K	1/27/17	10.5	000-15175	
10.17	2018 Executive Annual Incentive Plan*	8-K	1/26/18	10.5	000-15175	
10.18	EchoSign, Inc. 2005 Stock Plan, as amended*	S-8	7/29/11	99.1	333-175910	
10.19	Auditude, Inc. 2009 Equity Incentive Plan, as amended*	S-8	11/18/11	99.1	333-178065	

10.20	Auditude, Inc. Employee Stock Option Plan, as amended*	S-8	11/18/11	99.2	333-178065
10.21	Efficient Frontier, Inc. 2003 Stock Option/Stock Issuance Plan, as Amended and Restated*	S-8	1/27/12	99.1	333-179221

57

		Incorporated by Reference**				
Exhibit Number	Exhibit Description	Form	Filing Date	Exhibit Number	SEC File No.	Filed Herewith
10.22A	Behance, Inc. 2012 Equity Incentive Plan*	S-8	1/23/13	99.1	333-186143	
10.22B	Amendment No. 1 to the Behance, Inc. 2012 Equity Incentive Plan*	S-8	1/23/13	99.2	333-186143	
10.23	Neolane 2008 Stock Option Plan*	S-8	8/27/13	99.1	333-190846	
10.24	2012 Neolane Stock Option Plan for The United States*	S-8	8/27/13	99.2	333-190846	
10.25	Description of 2016 Director Compensation*	10-K	1/19/16	10.32	000-15175	
10.26	Description of 2017 Director Compensation*	10-K	1/20/17	10.32	000-15175	
10.27	Description of 2018 Director Compensation*	10-K	1/22/18	10.29	000-15175	
10.28A	Aviary, Inc. 2008 Stock Plan, as amended*	S-8	9/26/14	99.1	333-198973	
10.28B	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	
10.28C	Form of Stock Option Grant Notice and Award Agreement pursuant to the Aviary, Inc. 2008 Stock Plan (Installment Vesting, Non- U.S.)*	S-8	9/26/14	99.3	333-198973	
10.31	Adobe Systems Incorporated 2017 Executive Severance Plan in the Event of a Change of Control*	8-K	12/14/17	10.1	000-15175	
10.32	Picasso Acquisition Holding 1, Inc. 2012 Stock Option and Grant Plan*	S-8	3/13/15	99.1	333-202732	
10.33	TubeMogul, Inc. 2007 Equity Compensation Plan, as amended, and forms of agreement thereunder††*	S-1	3/26/14	10.2	333-194817	
10.34	TubeMogul, Inc. 2014 Equity Incentive Plan, and forms of agreement thereunder††*	S-1A	7/7/14	10.3	333-194817	
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						X

	Certification of Chief Executive Officer, as required by Rule 13a-14(b) of the Securities Exchange Act of 1934†	
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

58

Table of Contents

		Incorporated by Reference**				
Exhibit Number	Exhibit Description	Form	Filing Date	Exhibit Number	SEC File No.	Filed Herewith
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.

†† References to Exhibits 10.33 through 10.34 are to filings made by TubeMogul, Inc.

Table of Contents

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/ JOHN MURPHY
John Murphy
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: June 27, 2018

60

Table of Contents

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
LiveCycle
Reader
TubeMogul

All other trademarks are the property of their respective owners.

61