ADOBE SYSTEMS INC
Form 10-Q
October 01, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended August 28, 2009

or

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

For the transition period from to

Commission File Number: 0-15175

ADOBE SYSTEMS INCORPORATED
(Exact name of registrant as specified in its charter)

Delaware	77-0019522
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

345 Park Avenue, San Jose, California 95110-2704
(Address of principal executive offices and zip code)

(408) 536-6000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

The number of shares outstanding of the registrant's common stock as of September 25, 2009 was 523,760,118.

ADOBE SYSTEMS INCORPORATED
FORM 10-Q

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PART I—FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ADOBE SYSTEMS INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

(Unaudited)

	August 28, 2009	November 28, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$1,132,144	$ 886,450
Short-term investments	1,424,317	1,132,752
Trade receivables, net of allowances for doubtful accounts of $6,153 and $4,128, respectively	281,807	467,234
Deferred income taxes	72,163	110,713
Prepaid expenses and other current assets	80,503	137,954
Total current assets	2,990,934	2,735,103
Property and equipment, net	335,752	313,037
Goodwill	2,125,946	2,134,730
Purchased and other intangibles, net	117,384	214,960
Investment in lease receivable	207,239	207,239
Other assets	184,705	216,529
Total assets	$5,961,960	$ 5,821,598
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables	$48,416	$ 55,840
Accrued expenses	349,077	399,969
Accrued restructuring	8,230	35,690
Income taxes payable	20,332	27,136
Deferred revenue	188,328	243,964
Total current liabilities	614,383	762,599
Long-term liabilities:		
Debt	350,000	350,000
Deferred revenue	29,866	31,356
Accrued restructuring	4,967	6,214
Income taxes payable	137,296	123,182
Deferred income taxes	105,597	117,328
Other liabilities	25,293	20,565
Total liabilities	1,267,402	1,411,244
Stockholders' equity:		
Preferred stock, $0.0001 par value; 2,000 shares authorized, none issued	—	—
	61	61

Common stock, $0.0001 par value; 900,000 shares authorized; 600,834 shares issued; 524,665 and 526,111 shares outstanding, respectively		
Additional paid-in-capital	2,303,342	2,396,819
Retained earnings	5,331,957	4,913,406
Accumulated other comprehensive income	21,728	57,222
Treasury stock, at cost (76,169 and 74,723 shares, respectively), net of reissuances	(2,962,530)	(2,957,154)
Total stockholders' equity	4,694,558	4,410,354
Total liabilities and stockholders' equity	$5,961,960	$ 5,821,598

See accompanying Notes to Condensed Consolidated Financial Statements.

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ADOBE SYSTEMS INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	August 28, 2009	August 29, 2008	August 28, 2009	August 29, 2008
Revenue:				
Products	$649,865	$838,813	$2,052,119	$2,532,076
Services and support	47,642	48,444	136,451	132,512
Total revenue	697,507	887,257	2,188,570	2,664,588
Cost of revenue:				
Products	49,365	84,623	164,041	202,657
Services and support	15,682	26,228	50,367	73,535
Total cost of revenue	65,047	110,851	214,408	276,192
Gross profit	632,460	776,406	1,974,162	2,388,396
Operating expenses:				
Research and development	138,902	170,124	427,289	508,909
Sales and marketing	231,320	271,439	724,020	813,399
General and administrative	79,593	97,156	224,462	257,163
Restructuring charges	65	1,194	15,866	2,625
Amortization of purchased intangibles	14,978	17,024	45,654	51,222
Total operating expenses	464,858	556,937	1,437,291	1,633,318
Operating income	167,602	219,469	536,871	755,078
Non-operating income (expense):				
Interest and other income, net	6,667	9,338	24,753	34,778
Interest expense	(460)	(2,390)	(1,872)	(8,027)
Investment gains (losses), net	607	2,097	(18,444)	20,335
Total non-operating income (expense), net	6,814	9,045	4,437	47,086
Income before income taxes	174,416	228,514	541,308	802,164
Provision for income taxes	38,371	36,906	122,757	176,267
Net income	$136,045	$191,608	$418,551	$625,897
Basic net income per share	$0.26	$0.36	$0.79	$1.15
Shares used in computing basic net income per share	525,911	531,060	528,015	542,624
Diluted net income per share	$0.26	$0.35	$0.79	$1.13
Shares used in computing diluted net income per share	531,809	541,311	532,846	552,739

See accompanying Notes to Condensed Consolidated Financial Statements.

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ADOBE SYSTEMS INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended	
	August 28, 2009	August 29, 2008
Cash flows from operating activities:		
Net income	$418,551	$625,897
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	197,386	202,841
Stock-based compensation	126,231	137,613
Deferred income taxes	22,671	34,336
Unrealized losses (gains) on investments	13,308	(9,690)
Retirements of property and equipment	3,435	185
Tax benefit from employee stock option plans	2,711	83,740
Provision for losses on trade receivables	3,049	3,870
Other non-cash items	2,464	2,709
Excess tax benefits from stock-based compensation	(84)	(23,635)
Changes in operating assets and liabilities, net of acquired assets and assumed liabilities:		
Trade receivables	182,377	(13,695)
Prepaid expenses and other current assets	15,663	2,044
Trade payables	(7,424)	(3,574)
Accrued expenses	(44,351)	(43,996)
Accrued restructuring	(27,527)	(5,418)
Income taxes payable	12,619	(73,957)
Deferred revenue	(57,126)	23,163
Net cash provided by operating activities	863,953	942,433
Cash flows from investing activities:		
Purchases of short-term investments	(1,142,015)	(840,782)
Maturities of short-term investments	333,219	520,784
Proceeds from sales of short-term investments	504,958	486,904
Purchases of property and equipment	(84,659)	(88,481)
Acquisitions, net of cash acquired	—	485
Purchases of long-term investments and other assets	(24,891)	(102,085)
Proceeds from sale of long-term investments	4,909	18,085
Other	3,271	—
Net cash used for investing activities	(405,208)	(5,090)
Cash flows from financing activities:		
Purchases of treasury stock	(350,013)	(1,422,735)
Proceeds from issuance of treasury stock	122,219	301,454
Excess tax benefits from stock-based compensation	84	23,635
Proceeds from borrowings under credit facility	—	450,000
Repayments of borrowings under credit facility	—	(100,000)
Net cash used for financing activities	(227,710)	(747,646)

Effect of foreign currency exchange rates on cash and cash equivalents	14,659	(1,856)
Net increase in cash and cash equivalents	245,694	187,841
Cash and cash equivalents at beginning of period	886,450	946,422
Cash and cash equivalents at end of period	$1,132,144	$1,134,263
Supplemental disclosures:		
Cash paid for income taxes, net of refunds	$78,635	$129,320
Cash paid for interest	$453	$2,311

See accompanying Notes to Condensed Consolidated Financial Statements.

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

We have prepared the accompanying unaudited Condensed Consolidated Financial Statements pursuant to the rules and regulations of the 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 November 28, 2008 on file with the SEC.

There have been no material changes in our significant accounting policies, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended November 28, 2008.

Recent Accounting Pronouncements

With the exception of those discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the nine months ended August 28, 2009, as compared to the recent accounting pronouncements described in our Annual Report on Form 10-K for the fiscal year ended November 28, 2008, that are of significance, or potential significance, to us.

In June 2009, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 168, “The FASB Accounting Standards Codification and the Hierarchy of GAAP, a replacement of SFAS No. 162” (“SFAS 168”). SFAS 168 will become the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009 and will be effective for us beginning in the fourth quarter of fiscal 2009. On the effective date of SFAS 168, it will supersede all then-existing non-SEC accounting and reporting standards. As SFAS 168 is not intended to change or alter existing GAAP, it is not expected to have any impact on our consolidated financial statements and will only impact references for accounting guidance.

In June 2009, the FASB issued SFAS No. 167, “Amendments to FASB Interpretation (“FIN”) No. 46(R)” (“SFAS 167”), which amends the evaluation criteria to identify the primary beneficiary of a variable interest entity and requires ongoing reassessment of whether an enterprise is the primary beneficiary of the variable interest entity. The provisions of SFAS 167 are effective for interim and annual reporting periods ending after November 15, 2009 and will be effective for us beginning in the fourth quarter of fiscal 2009. We are currently evaluating the impact of adopting SFAS 167 on our consolidated financial position, results of operations and cash flows.

In May 2009, the FASB issued SFAS No. 165, “Subsequent Events” (“SFAS 165”), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The provisions of SFAS 165 are effective for interim and annual reporting periods

ending after June 15, 2009. We adopted SFAS 165 during the third quarter of fiscal 2009 and as the pronouncement only requires additional disclosures, the adoption did not have an impact on our consolidated financial position, results of operations or cash flows. We have evaluated subsequent events through October 1, 2009, the date that these financial statements were issued.

In April 2009, the FASB issued three related FASB Staff Positions ("FSP"): (i) FSP Financial Accounting Standard ("FAS") No. 115-2 and FAS No. 124-2, "Recognition of Presentation of Other-Than-Temporary Impairments" ("FSP FAS 115-2 and FAS 124-2"), (ii) FSP FAS No. 107-1 and Accounting Principles Board Opinion ("APB") No. 28-1, "Interim Disclosures about Fair Value of Financial Instruments" ("FSP FAS 107-1 and APB 28-1"), and (iii) FSP FAS No. 157-4, "Determining the Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" ("FSP FAS 157-4), which are effective for interim and annual reporting periods ending after June 15, 2009. FSP FAS 115-2 and FAS 124-2 amends the other-than-temporary impairment guidance in GAAP for debt securities to modify the requirement for recognizing other-than-temporary impairments, change the existing

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

impairment model, and modify the presentation and frequency of related disclosures. FSP FAS 107-1 and APB 28-1 requires disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements. FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). We adopted these FSPs during the third quarter of fiscal 2009 and they did not have a material effect on our consolidated financial position, results of operations or cash flows.

In September 2008, the FASB issued FSP FAS No. 133-1 and FIN No. 45-4, "Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of SFAS No. 133 and FIN No. 45; and Clarification of the Effective Date of SFAS No. 161" ("FSP FAS 133-1 and FIN 45-4"). FSP FAS 133-1 and FIN 45-4 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") to require disclosures by sellers of credit derivatives, including credit derivatives embedded in hybrid instruments. FSP FAS 133-1 and FIN 45-4 also amend FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of SFAS No. 5, 57, and 107 and rescission of FIN No. 34" ("FIN 45"), to require additional disclosure about the current status of the payment/performance risk of a guarantee. The provisions of the FSP that amend SFAS 133 and FIN 45 are effective for reporting periods ending after November 15, 2008. FSP FAS 133-1 and FIN 45-4 also clarifies the effective date in SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS 133" ("SFAS 161"). We adopted the disclosures required by SFAS 161 in the first quarter of fiscal 2009. Since FSP FAS 133-1 and FIN 45-4 only required additional disclosures, the adoption did not impact our consolidated financial position, results of operations or cash flows.

In April 2008, the FASB issued FSP FAS No. 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP 142-3"). FSP 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under SFAS No. 142, "Goodwill and Other Intangible Assets." This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. FSP FAS 142-3 is effective for us beginning in the first quarter of fiscal 2010. Early adoption is not permitted. As this guidance is to be applied prospectively, on adoption, there is no impact to our current consolidated financial statements.

In March 2008, the FASB issued SFAS 161 which requires companies with derivative instruments to disclose information that should enable financial statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133 and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. We adopted SFAS 161 in the first quarter of fiscal 2009. Since SFAS 161 only required additional disclosure, the adoption did not impact our consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R") and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin ("ARB") No. 51" ("SFAS 160"). SFAS 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 141R and SFAS 160 are effective for us beginning in the first quarter of fiscal 2010.

Early adoption is not permitted. We are currently evaluating the impact that SFAS 141R and SFAS 160 will have on our consolidated financial statements.

In September 2006, the FASB issued SFAS 157, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements and is effective for fiscal years beginning after November 15, 2007. Effective November 29, 2008, we adopted SFAS 157 for all nonfinancial assets and nonfinancial liabilities measured at fair value on a non-recurring basis. Examples include goodwill, intangibles, and other long-lived assets. The adoption of SFAS 157 did not have a material impact on our consolidated financial position, results of operations or cash flows.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 2. 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.” These investments are free of trading restrictions or become free of trading restrictions within one year. 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. Gains are recognized when realized in our Condensed Consolidated Statements of Income. Losses are recognized as realized or when we have determined that an other-than-temporary decline in fair value has occurred. Gains and losses are determined using the specific identification method.

Cash, cash equivalents and short-term investments consisted of the following as of August 28, 2009 (in thousands):

	Carrying Value	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	$33,923	$—	$—	$33,923
Cash equivalents:				
Money market mutual funds	1,043,750	—	—	1,043,750
Bank deposits	49,451	—	—	49,451
United States treasury notes	5,021	—	(1)	5,020
Total cash equivalents	1,098,222	—	(1)	1,098,221
Total cash and cash equivalents	1,132,145	—	(1)	1,132,144
Short-term investments:				
United States treasury notes	749,616	5,164	(10)	754,770
United States government agency bonds	133,164	127	(21)	133,270
Government guaranteed bonds	265,448	1,724	(73)	267,099
Corporate bonds	204,126	3,626	(2)	207,750
Obligations of foreign governments	28,222	488	—	28,710
Bonds of multi-lateral government agencies	27,434	340	—	27,774
Subtotal	1,408,010	11,469	(106)	1,419,373
Other marketable equity securities	2,504	2,440	—	4,944
Total short-term investments	1,410,514	13,909	(106)	1,424,317
Total cash, cash equivalents and short-term investments	$2,542,659	$13,909	$(107)	$2,556,461

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Cash, cash equivalents and short-term investments consisted of the following as of November 28, 2008 (in thousands):

	Carrying Value	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Current assets:				
Cash	$117,681	$—	$—	$117,681
Cash equivalents:				
Money market mutual funds	682,148	—	—	682,148
Bank deposits	40,594	—	—	40,594
United States treasury notes	35,992	7	—	35,999
Corporate bonds	10,028	—	—	10,028
Total cash equivalents	768,762	7	—	768,769
Total cash and cash equivalents	886,443	7	—	886,450
Short-term investments:				
United States treasury notes	863,772	14,384	(1)	878,155
Corporate bonds	109,415	219	(997)	108,637
Obligations of foreign governments	115,316	811	(33)	116,094
Bonds of multi-lateral government agencies	26,559	260	—	26,819
Subtotal	1,115,062	15,674	(1,031)	1,129,705
Other marketable equity securities	2,773	274	—	3,047
Total short-term investments	1,117,835	15,948	(1,031)	1,132,752
Total cash, cash equivalents and short-term investments	$2,004,278	$15,955	$(1,031)	$2,019,202

See Note 3 for further information regarding our financial instruments.

The following table summarizes the fair value and gross unrealized losses related to available-for-sale securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at August 28, 2009 (in thousands):

	Less Than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
United States treasury notes and agency bonds	$108,878	$(32)	$108,878	$(32)
Government guaranteed bonds	23,084	(73)	23,084	(73)
Corporate bonds	3,473	(2)	3,473	(2)
Total	$135,435	$(107)	$135,435	$(107)

As of August 28, 2009, there were no securities in a continuous loss position for more than twelve months. There were 18 securities that were in an unrealized loss position at August 28, 2009.

The following table summarizes the fair value and gross unrealized losses related to available-for-sale securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at November 28, 2008 (in thousands):

	Less Than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
United States treasury notes	$37,400	$(1)	$37,400	$(1)
Corporate bonds	67,606	(997)	67,606	(997)
Obligations of foreign governments	28,033	(33)	28,033	(33)
Total	$133,039	$(1,031)	$133,039	$(1,031)

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

As of November 28, 2008, there were no securities in a continuous loss position for more than twelve months. There were 33 securities that were in an unrealized loss position at November 28, 2008.

The following table summarizes the cost and estimated fair value of debt securities classified as short-term investments based on stated maturities as of August 28, 2009 (in thousands):

	Cost	Estimated Fair Value
Due within one year	$772,898	$775,869
Due within two years	317,246	320,399
Due within three years	241,150	243,434
Due after three years	76,716	79,671
Total	$1,408,010	$1,419,373

We review our debt and marketable equity securities classified as short-term investments on a regular basis to evaluate whether or not any security has experienced an other-than-temporary decline in fair value. We consider factors such as the length of time and extent to which the market value has been less than the cost, the financial condition and near-term prospects of the issuer and our intent to sell, or whether it is more likely than not we will be required to sell, the investment before recovery of the investment's amortized cost basis. If we believe that an other-than-temporary decline exists in one of these securities, we write down these investments to fair value. The portion of the write-down related to credit loss would be recorded to investment gains (losses), net on our Condensed Consolidated Statements of Income for equity securities and to interest and other income, net for debt securities. Any portion of the other-than-temporary decline not related to credit loss would be recorded to accumulated other comprehensive income, which is reflected as a separate component of stockholders' equity on our Condensed Consolidated Balance Sheets. As of August 28, 2009, we do not consider any of our investments to be other-than-temporarily impaired.

NOTE 3. FINANCIAL INSTRUMENTS

We measure certain financial assets and liabilities at fair value on a recurring basis. The fair value of these financial assets and liabilities was determined using the following inputs at August 28, 2009 (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)
Current assets:				
Money market funds and overnight deposits(1)	$1,093,201	$1,093,201	$—	$ —
Fixed income available-for-sale securities(2)	1,424,393	—	1,424,393	—

Available-for-sale equity securities(3)	4,944	4,944	—	—
Total current assets	2,522,538	1,098,145	1,424,393	—
Non-current assets:				
Investments of limited partnership(4)	34,705	—	—	34,705
Foreign currency derivatives(5)	4,688	—	4,688	—
Deferred compensation plan assets(4):				
Money market funds	770	770	—	—
Equity and fixed income mutual funds	7,754	—	7,754	—
Subtotal for deferred compensation plan assets	8,524	770	7,754	—
Total non-current assets	47,917	770	12,442	34,705
Total assets	$2,570,455	$1,098,915	$1,436,835	$ 34,705
Liabilities:				
Foreign currency derivatives(6)	$729	$—	$729	$ —
Total liabilities	$729	$—	$729	$ —

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The fair value of these financial assets and liabilities was determined using the following inputs at November 28, 2008 (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)
Current assets:				
Money market funds and overnight deposits(1)	$722,742	$722,742	$—	$ —
Fixed income available-for-sale securities(2)	1,175,732	—	1,175,732	—
Available-for-sale equity securities(3)	3,047	3,047	—	—
Total current assets	1,901,521	725,789	1,175,732	—
Non-current assets:				
Investments of limited partnership(4)	39,004	251	—	38,753
Foreign currency derivatives(5)	49,848	—	49,848	—
Deferred compensation plan assets(4):				
Money market funds	704	704	—	—
Equity and fixed income mutual funds	6,856	—	6,856	—
Subtotal for deferred compensation plan assets	7,560	704	6,856	—
Total non-current assets	96,412	955	56,704	38,753
Total assets	$1,997,933	$726,744	$1,232,436	$ 38,753
Liabilities:				
Foreign currency derivatives(6)	$1,739	$—	$1,739	$ —
Total liabilities	$1,739	$—	$1,739	$ —

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(1) Included in cash and cash equivalents on our Condensed Consolidated Balance Sheets.

(2) Included in either cash and cash equivalents or short-term investments on our Condensed Consolidated Balance Sheets.

(3) Included in short-term investments on our Condensed Consolidated Balance Sheets.

(4) Included in other assets on our Condensed Consolidated Balance Sheets.

(5) Included in prepaid expenses and other current assets on our Condensed Consolidated Balance Sheets.

(6) Included in accrued expenses on our Condensed Consolidated Balance Sheets.

See Note 2 for further information regarding our financial instruments.

Fixed income available-for-sale securities include United States (“U.S.”) treasury securities, Agency or U.S. government guaranteed securities (75% of total), corporate bonds (15% of total), obligations of foreign governments and their agencies (8% of total), and obligations of multi-lateral government agencies (2% of total) at August 28, 2009 and U.S. treasury securities, Agency or U.S. government guaranteed securities (78% of total), corporate bonds (10% of total), obligations of foreign governments and their agencies (10% of total), and obligations of multi-lateral government agencies (2% of total) at November 28, 2008. These are all high quality, investment grade securities with a minimum credit rating of A- and a weighted average credit rating better than AA+. We value these securities based on pricing from pricing vendors, who may use quoted prices in active markets for identical assets (Level 1 inputs) or inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs) in determining fair value. However, we classify all of our fixed income available-for-sale securities as having Level 2 inputs. Our procedures include controls to ensure that appropriate fair values are recorded such as comparing prices obtained from multiple independent sources.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The investments of limited partnership relate to our interest in Adobe Ventures IV L.P. ("Adobe Ventures"), which are consolidated in our Condensed Consolidated Financial Statements. The Level 1 investments of limited partnership relate to investments in publicly-traded companies and the Level 3 investments consist of investments in privately-held companies. These investments are remeasured at fair value each period with any gains or losses recognized in investment gains (losses), net in our Condensed Consolidated Statements of Income. We estimated fair value of the Level 3 investments by 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.

A reconciliation of the beginning and ending balances for investments of limited partnership using significant unobservable inputs (Level 3) as of August 28, 2009 and November 28, 2008 was as follows (in thousands):

Balance as of November 28, 2008	$38,753
Purchases and sales of investments, net	966
Unrealized net investment losses included in earnings	(5,014)
Balance as of August 28, 2009	$34,705

We also have direct investments in privately-held companies accounted for under the cost method, which are periodically assessed for other-than-temporary impairment. If we determine that an other-than-temporary impairment has occurred, we write-down the investment to its fair value. We estimated fair value of our cost method investments considering available information such as pricing in recent rounds of financing, current cash positions, earnings and cash flow forecasts, recent operational performance and any other readily available market data. During the nine months ended August 28, 2009, we determined that certain of our cost method investments were other-than-temporarily impaired which resulted in a charge of $13.9 million, included in investment gains (losses), net in our Condensed Consolidated Statements of Income. The fair value of cost method investments that were impaired was estimated using Level 3 inputs. We did not have any other-than-temporary impairments of our cost method investments during the three months ended August 28, 2009.

See Note 6 for further information regarding our limited partnership interest in Adobe Ventures and our cost method investments.

In countries outside the U.S., we transact business in U.S. dollars and in various other currencies. In Europe and Japan, transactions that are denominated in Euro and Yen are subject to exposure from movements in exchange rates. We may use foreign exchange option contracts or forward contracts to hedge operational ("cash flow") exposures resulting from changes in these foreign currency exchange rates. These foreign exchange contracts, carried at fair value, may have maturities between one and twelve months. We enter into these foreign exchange contracts to hedge a portion of our forecasted foreign currency denominated revenue in the normal course of business and accordingly, they are not speculative in nature.

In accordance with SFAS 133, we recognize derivative instruments and hedging activities as either assets or liabilities on the balance sheet 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.

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 on our Condensed Consolidated Balance Sheets, until the forecasted transaction occurs. When the forecasted transaction occurs, we reclassify the related gain or loss on the cash flow hedge to revenue. In the event the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, we reclassify the gain or loss on the related cash flow hedge from accumulated other comprehensive income to interest and other income, net on our Condensed Consolidated Statements of Income at that time.

We also hedge our net recognized foreign currency assets and liabilities with foreign exchange forward contracts to reduce the risk that our earnings and cash flows will be adversely affected by changes in exchange rates. These derivative instruments 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, net on our Condensed Consolidated Statements of Income. These derivative instruments 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.

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

We mitigate concentration of risk related to foreign currency hedges through a policy that establishes counterparty limits. The bank counterparties in these contracts expose us to credit-related losses in the event of their nonperformance. However, to mitigate that risk, we only contract with counterparties who meet our minimum requirements under our counterparty risk assessment process. In addition, our hedging policy establishes maximum limits for each counterparty. We monitor ratings, credit spreads and potential downgrades on at least a quarterly basis. Based on our on-going assessment of counterparty risk, we will adjust our exposure to various counterparties.

The aggregate fair value of derivative instruments in net asset positions as of August 28, 2009 was $4.7 million. This amount represents the maximum exposure to loss at the reporting date as a result of all of the counterparties failing to perform as contracted. This exposure could be reduced by up to $0.7 million of liabilities included in master netting arrangements with those same counterparties.

The fair value of derivative instruments in our Condensed Consolidated Balance Sheets as of August 28, 2009 were as follows (in thousands):

	Fair Values of Derivative Instruments					
	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location		Fair Value	Balance Sheet Location		Fair Value
Derivatives designated as hedging instruments:						
Foreign exchange option contracts(*)	Prepaid expense and other current assets	$	4,507	Accrued expenses	$	—
Derivatives not designated as hedging instruments:						
Foreign exchange forward contracts	Prepaid expense and other current assets		181	Accrued expenses		729
Total derivatives		$	4,688		$	729

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

The effect of derivative instruments designated as cash flow hedges and of derivative instruments not designated as hedges on our Condensed Consolidated Statements of Income for the three and nine months ended August 28, 2009 were as follows (in thousands):

	Three Months	Nine 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(1)	$(329)	$—	$(14,516)	$—
Net gain (loss) reclassified from accumulated OCI into income(2)	$749	$—	$27,138	$—
Net gain (loss) recognized in income(3)	$(3,734)	$—	$(12,782)	$—
Derivatives not designated as hedging relationships:				
Net gain (loss) recognized in income(4)	$—	$(1,650)	$—	$(10,200)

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

(2) Effective portion classified as revenue.

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(3) Ineffective portion and amount excluded from effectiveness testing classified in interest and other income, net.

(4) Classified in interest and other income, net.

NOTE 4. ACQUISTIONS

On August 13, 2009, we entered into a definitive agreement related to a potential business combination. We completed this business combination subsequent to our quarter ended August 28, 2009 for cash consideration of approximately $35.3 million. This acquisition was not material to our consolidated balance sheets and results of operations. See Note 18 for further discussion of this transaction and for a discussion of the planned acquisition of Omniture, Inc. ("Omniture").

NOTE 5. GOODWILL AND PURCHASED AND OTHER INTANGIBLES

Goodwill as of August 28, 2009 and November 28, 2008 was $2.126 billion and $2.135 billion, respectively. The change includes reductions in goodwill of $7.5 million related to the release of tax reserves associated with the acquisitions of Accelio and Macromedia in addition to a facility lease obligation adjustment of $1.7 million related to Macromedia, offset in part by small foreign currency translation adjustments.

Purchased and other intangible assets subject to amortization as of August 28, 2009 were as follows (in thousands):

	Cost	Accumulated Amortization	Net
Purchased technology	$405,830	$ (375,412)	$30,418
Localization	$24,441	$ (16,567)	$7,874
Trademarks	130,925	(97,940)	32,985
Customer contracts and relationships	196,617	(150,754)	45,863
Other intangibles	800	(556)	244
Total other intangible assets	$352,783	$ (265,817)	$86,966
Total purchased and other intangible assets	$758,613	$ (641,229)	$117,384

Purchased and other intangible assets subject to amortization as of November 28, 2008 were as follows (in thousands):

	Cost	Accumulated Amortization	Net
Purchased technology	$411,408	$ (338,608)	$72,800
Localization	$23,751	$ (6,156)	$17,595
Trademarks	130,925	(78,181)	52,744
Customer contracts and relationships	198,891	(127,520)	71,371
Other intangibles	800	(350)	450
Total other intangible assets	$354,367	$ (212,207)	$142,160

Total purchased and other intangible assets	$765,775	$ (550,815)	$214,960

Amortization expense related to purchased and other intangible assets was $34.4 million and $109.7 million for the three and nine months ended August 28, 2009, respectively. Comparatively, amortization expense was $43.2 million and $140.7 million for the three and nine months ended August 29, 2008, respectively. Of these amounts, $19.4 million and $64.1 million were included in cost of sales for the three and nine months ended August 28, 2009, respectively, and $26.2 million and $89.5 million were included in cost of sales for the three and nine months ended August 29, 2008, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

As of August 28, 2009, we expect amortization expense in future periods to be as follows (in thousands):

Fiscal year	Purchased Technology	Other Intangible Assets
Remainder of 2009	$ 13,736	$ 20,133
2010	8,301	52,202
2011	4,994	12,444
2012	3,387	1,009
2013	—	789
Thereafter	—	389
Total expected amortization expense	$ 30,418	$ 86,966

NOTE 6. OTHER ASSETS

Other assets as of August 28, 2009 and November 28, 2008 consisted of the following (in thousands):

	2009	2008
Acquired rights to use technology	$87,806	$90,643
Investments	61,110	76,589
Security and other deposits	8,655	16,087
Deferred compensation plan assets	8,524	7,560
Prepaid royalties	8,191	9,026
Restricted cash	4,089	7,361
Prepaid land lease	3,156	3,185
Prepaid rent	1,524	2,658
Other	1,650	3,420
Total other assets	$184,705	$216,529

Included in investments are our indirect investments through our limited partnership interest in Adobe Ventures of approximately $34.7 million and $39.0 million as of August 28, 2009 and November 28, 2008, respectively, which is consolidated in accordance with FIN No. 46R, a revision to FIN No. 46, “Consolidation of Variable Interest Entities, an interpretation of ARB No. 51.” The partnership is controlled by Granite Ventures, an independent venture capital firm and sole general partner of Adobe Ventures. We are the primary beneficiary of Adobe Ventures and bear virtually all of the risks and rewards related to our ownership. Our investment in Adobe Ventures does not have a significant impact on our condensed consolidated financial position, results of operations or cash flows. See Note 3 for further information regarding Adobe Ventures.

Also included in investments are our direct investments in privately-held companies of approximately $26.4 million and $37.6 million as of August 28, 2009 and November 28, 2008, respectively, which are accounted for based on the cost method. We assess these investments for impairment in value as circumstances dictate. See Note 3 for further information regarding our cost method investments.

We entered into a Purchase and Sale Agreement, effective May 12, 2008, for the acquisition of real property located in Waltham, Massachusetts. We purchased the property upon completion of construction of an office building shell and core, parking structure, and site improvements. The purchase price for the property was $44.7 million and closed on June 16, 2009. We made an initial deposit of $7.0 million which was included in security and other deposits as of November 28, 2008 and the remaining balance was paid at closing. This deposit was held in escrow until closing and then applied to the purchase price.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 7. ACCRUED EXPENSES

Accrued expenses as of August 28, 2009 and November 28, 2008 consisted of the following (in thousands):

	2009	2008
Accrued compensation and benefits	$141,814	$177,760
Taxes payable	7,924	21,760
Sales and marketing allowances	22,888	28,127
Other	176,451	172,322
Total accrued expenses	$349,077	$399,969

Other primarily includes general corporate accruals for corporate marketing programs, local and regional expenses, and technical support. Other is also comprised of deferred rent related to office locations with rent escalations, accrued royalties, foreign currency derivatives and accrued interest on the credit facility.

NOTE 8. STOCK-BASED COMPENSATION

The assumptions used to value option grants during the three and nine months ended August 28, 2009 and August 29, 2008 were as follows:

	Three Months		Nine Months	
	2009	2008	2009	2008
Expected life (in years)	3.7 – 3.8	3.5 – 3.6	3.0 – 3.8	2.3 – 4.7
Volatility	37 – 43 %	34 – 37 %	37 – 57 %	32 – 39 %
Risk free interest rate	1.93 – 2.24 %	2.79 – 3.50 %	1.16 – 2.24 %	1.70 – 3.50 %

The expected term of employee stock purchase plan (“ESPP”) shares is the average of the remaining purchase periods under each offering period. The assumptions used to value employee stock purchase rights during the three and nine months ended August 28, 2009 and August 29, 2008 were as follows:

	Three Months		Nine Months	
	2009	2008	2009	2008
Expected life (in years)	0.5 – 2.0	0.5 – 2.0	0.5 – 2.0	0.5 – 2.0
Volatility	40 %	34 – 36 %	40 – 57 %	30 – 36 %
Risk free interest rate	0.33 – 1.05 %	2.12 – 2.66 %	0.27 – 1.05 %	2.12 – 3.29 %

Summary of Stock Options

Option activity for the nine months ended August 28, 2009 and the fiscal year ended November 28, 2008 was as follows (in thousands):

	2009	2008

Beginning outstanding balance	40,704	47,742
Granted	4,914	5,462
Exercised	(4,370)	(9,983)
Cancelled	(2,699)	(2,517)
Ending outstanding balance	38,549	40,704

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Information regarding stock options outstanding at August 28, 2009 and August 29, 2008 is summarized below:

	Number of Shares (thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value(*) (millions)
2009				
Options outstanding	38,549	$29.75	3.92	$176.9
Options vested and expected to vest	36,986	$29.78	3.84	$168.5
Options exercisable	26,573	$29.21	3.23	$127.8
2008				
Options outstanding	42,070	$29.67	4.16	$554.5
Options vested and expected to vest	39,936	$29.29	4.07	$541.2
Options exercisable	27,252	$25.94	3.35	$460.3

(*) The intrinsic value is calculated as the difference between the market value as of the end of the fiscal period and the exercise price of the shares. As reported by the NASDAQ Global Select Market, the market values as of August 28, 2009 and August 29, 2008 were $31.73 and $42.83, respectively.

Summary of Employee Stock Purchase Plan Shares

The weighted average subscription date fair value of shares under the ESPP during the nine months ended August 28, 2009 and August 29, 2008 was $5.40 and $9.03, respectively. Employees purchased 3.2 million shares at an average price of $19.04 and 2.4 million shares at an average price of $30.40 for the nine months ended August 28, 2009 and August 29, 2008, respectively. The intrinsic value of shares purchased during the nine months ended August 28, 2009 and August 29, 2008 was $21.7 million and $25.0 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 Restricted Stock Units

Restricted stock unit activity for the nine months ended August 28, 2009 and the fiscal year ended November 28, 2008 was as follows (in thousands):

	2009	2008
Beginning outstanding balance	4,261	1,701
Awarded	3,333	3,177
Released	(984)	(422)
Forfeited	(291)	(195)

Ending outstanding balance	6,319	4,261

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Information regarding restricted stock units outstanding at August 28, 2009 and August 29, 2008 is summarized below:

	Number of Shares (thousands)	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value(*) (millions)
2009			
Restricted stock units outstanding	6,319	1.70	$200.5
Restricted stock units vested and expected to vest	4,978	1.52	$157.8
2008			
Restricted stock outstanding	4,025	1.91	$172.4
Restricted stock units vested and expected to vest	3,083	1.69	$132.0

(*) 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 August 28, 2009 and August 29, 2008 were $31.73 and $42.83, respectively.

Summary of Performance Shares

Effective January 26, 2009, the Executive Compensation Committee adopted the 2009 Performance Share Program (the “2009 Program”). The purpose of the 2009 Program is to align key management and senior leadership with stockholders’ interests and to retain key employees. The measurement period for the 2009 Program is our fiscal 2009 year. All members of our executive management and other key senior leaders are participating in the 2009 Program. Awards granted under the 2009 Program were granted in the form of performance shares pursuant to the terms of our 2003 Equity Incentive Plan. If pre-determined performance goals are met, shares of stock will be granted to the recipient, with 25% vesting on the later of the date of certification of achievement or the first anniversary date of the grant, and the remaining 75% vesting evenly on the following three annual anniversary dates of the grant, contingent upon the recipient’s continued service to Adobe. Participants in the 2009 Program have the ability to receive up to 115% of the target number of shares originally granted.

The following table sets forth the summary of performance share activity under our 2009 Program for the nine months ended August 28, 2009 (in thousands):

	Shares Granted	Maximum Shares Eligible to Receive

Beginning outstanding balance	—	—
Awarded	558	642
Forfeited	(3)	(4)
Ending outstanding balance	555	638

In the first quarter of fiscal 2009, the Executive Compensation Committee certified the actual performance achievement of participants in the 2008 Performance Share Program (the “2008 Program”). Based upon the achievement of goals outlined in the 2008 Program, participants had the ability to receive up to 200% of the target number of shares originally granted. Actual performance resulted in participants achieving approximately 124% of target or approximately 1.0 million shares for the 2008 Program. Shares under the 2008 Program vested 25% in the first quarter of fiscal 2009, and the remaining 75% vest evenly on the following three annual anniversary dates of the grant, contingent upon the recipient’s continued service to Adobe.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table sets forth the summary of performance share activity under our 2006 through 2008 programs, based upon share awards actually achieved, for the nine months ended August 28, 2009 and the fiscal year ended November 28, 2008 (in thousands):

	2009	2008
Beginning outstanding balance	383	—
Achieved	1,022	993
Released	(382)	(480)
Forfeited	(59)	(130)
Ending outstanding balance	964	383

Information regarding performance shares outstanding at August 28, 2009 and August 29, 2008 is summarized below:

	Number of Shares (thousands)	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (*) (millions)
2009			
Performance shares outstanding	964	1.30	$30.6
Performance shares vested and expected to vest	801	1.21	$25.3
2008			
Performance shares outstanding	454	1.44	$19.4
Performance shares vested and expected to vest	369	1.34	$15.8

(*) 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 August 28, 2009 and August 29, 2008 were $31.73 and $42.83, respectively.

Compensation Costs

As of August 28, 2009, there was $225.4 million of unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock-based awards which will be recognized over a weighted average period of 2.5 years. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Total stock-based compensation costs that have been included in our Condensed Consolidated Statements of Income for the three months ended August 28, 2009 and August 29, 2008 were as follows (in thousands):

	2009		2008	
Income Statement Classifications	Option Grants and Stock Purchase Rights(*)	Restricted Stock and Performance Share Awards(*)	Option Grants and Stock Purchase Rights(*)	Restricted Stock and Performance Share Awards(*)
Cost of revenue—services and support	$ 437	$ 190	$ 1,189	$ 230
Research and development	11,922	6,338	15,612	6,377
Sales and marketing	9,100	4,730	10,576	5,370
General and administrative	4,938	2,087	6,113	2,793
Total	$ 26,397	$ 13,345	$ 33,490	$ 14,770

(*) For the three months ended August 28, 2009 and August 29, 2008, we recorded $0.1 million and $2.1 million, respectively, associated with cash recoveries of fringe benefit tax from employees in India.

Total stock-based compensation costs that have been included in our Condensed Consolidated Statements of Income for the nine months ended August 28, 2009 and August 29, 2008 were as follows (in thousands):

	2009		2008	
Income Statement Classifications	Option Grants and Stock Purchase Rights(*)	Restricted Stock and Performance Share Awards(*)	Option Grants and Stock Purchase Rights(*)	Restricted Stock and Performance Share Awards(*)
Cost of revenue—services and support	$ 1,595	$ 527	$ 2,968	$ 483
Research and development	35,317	21,271	43,382	16,380
Sales and marketing	27,681	14,565	31,701	15,558
General and administrative	19,220	6,962	18,841	10,368
Total	$ 83,813	$ 43,325	$ 96,892	$ 42,789

(*) For the nine months ended August 28, 2009 and August 29, 2008, we recorded $0.9 million and $2.1 million, respectively, associated with cash recoveries of fringe benefit tax from employees in India.

NOTE 9. EMPLOYEE BENEFIT PLAN

Deferred Compensation Plan

As of August 28, 2009 and November 28, 2008, the invested amounts under our Deferred Compensation Plan totaled $8.5 million and $7.6 million, respectively, and are recorded as other assets on our Condensed Consolidated Balance

Sheets. As of August 28, 2009 and November 28, 2008, we recorded $8.5 million and $7.6 million, respectively, as a long-term liability to recognize undistributed deferred compensation due to employees.

NOTE 10. RESTRUCTURING CHARGES

Fiscal 2008 Restructuring Charges

In the fourth quarter of fiscal 2008, we initiated a restructuring program, consisting of reductions in workforce of approximately 560 full-time positions globally and the consolidation of facilities, in order to reduce our operating costs and focus our resources on key strategic priorities. In connection with this restructuring program, we recorded restructuring charges in the fourth quarter of fiscal 2008 totaling $29.2 million related to termination benefits for the elimination of approximately 460 of the 560 full-time positions globally. Charges associated with these ongoing termination benefits were recorded in accordance with SFAS No. 112, “Employers’ Accounting for Postemployment Benefits.” As of November 28, 2008, $0.4 million was paid.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In the first quarter of fiscal 2009, we continued to implement restructuring activities under this program. We vacated approximately 89,000 square feet of research and development and sales facilities in the U.S., the United Kingdom and Canada. In accordance with SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities,” we accrued $8.5 million for the fair value of our future contractual obligations under these operating leases using our credit-adjusted risk-free interest rate, estimated at approximately 6% as of the date we ceased to use the leased properties. This amount is net of the fair value of future estimated sublease income of approximately $4.4 million. We also recorded charges of $3.4 million for termination benefits for the elimination of approximately 43 of the remaining 100 full-time positions expected to be terminated.

In the second quarter of fiscal 2009, we accrued an additional $3.0 million under this program for termination benefits related to the elimination of approximately 48 of the remaining 57 full-time positions expected to be terminated.

In the third quarter of fiscal 2009, we accrued an additional $0.4 million under this program for termination benefits related to the elimination of substantially all of the remaining full-time positions expected to be terminated.

The following table sets forth a summary of Adobe restructuring activities during the nine months ended August 28, 2009 (in thousands):

	November 28, 2008	Costs Incurred	Cash Payments	Other Adjustments	August 28, 2009	Total Costs Incurred to Date	Total Costs Expected to be Incurred
Termination benefits	$28,759	$6,722	$(34,042)	$ 174	$1,613	$36,102	$36,121
Cost of closing redundant facilities	—	8,514	(4,488)	613	4,639	9,127	9,601
Total	$28,759	$15,236	$(38,530)	$ 787	$6,252	$45,229	$45,722

Accrued restructuring charges of approximately $6.3 million at August 28, 2009 include $3.3 million recorded in accrued restructuring, current and $3.0 million related to long-term facilities obligations recorded in accrued restructuring, non-current in the accompanying Condensed Consolidated Balance Sheets. We expect to pay substantially all of the accrued termination benefits during the remainder of fiscal 2009. We expect to pay facilities-related liabilities through fiscal 2013.

Included in the other adjustments column are foreign currency translation adjustments of $0.5 million and small changes to previous estimates.

Macromedia Merger Restructuring Charges

We completed our acquisition of Macromedia on December 3, 2005. In connection with this acquisition, we initiated plans to restructure both the pre-merger operations of Adobe and Macromedia to eliminate certain duplicative activities, focus our resources on future growth opportunities and reduce our cost structure. In connection with the worldwide restructuring plan, we recognized costs related to termination benefits for employee positions that were eliminated and for the closure of duplicative facilities. We also recognized costs related to the cancellation of certain contracts associated with the wind-down of subsidiaries and other service contracts held by Macromedia. Costs for termination benefits and contract terminations were completed during fiscal 2007. Total costs incurred were $27.0 million and $3.2 million, respectively.

The following table sets forth a summary of Macromedia restructuring activities during the nine months ended August 28, 2009 (in thousands):

	November 28, 2008	Cash Payments	Other Adjustments	August 28, 2009	Total Costs Incurred to Date	Total Costs Expected to be Incurred
Cost of closing redundant facilities	$12,168	$(3,986)	$ (1,255)	$6,927	$41,060	$41,060
Other	977	(879)	(80)	18	2,277	2,277
Total	$13,145	$(4,865)	$ (1,335)	$6,945	$43,337	$43,337

Accrued restructuring charges of approximately $6.9 million at August 28, 2009 related to facilities obligations include $5.0 million recorded in accrued restructuring, current and $1.9 million recorded in accrued restructuring, non-current in the accompanying Condensed Consolidated Balance Sheets. We expect to pay these liabilities through fiscal 2012. At November 28, 2008, accrued restructuring charges of $13.1 million related to long-term facilities obligations included $6.9 million recorded in accrued restructuring, current and $6.2 million recorded in accrued restructuring, non-current in the accompanying Condensed Consolidated Balance Sheets.

Included in the other adjustments column is a change to previous estimates of $1.3 million and small foreign currency translation adjustments. Included in the change in previous estimates of $1.3 million is an adjustment of $1.7 million associated with an accrual for a leased facility that was included in the purchase price of Macromedia as an assumed liability. During the third quarter of fiscal 2009, adjustments were made to the liability for this lease facility that were recorded as a reduction to Macromedia goodwill. Accordingly, during the nine months ended August 28, 2009, only $0.4 million represents adjustments recorded as an increase to restructuring charges.

NOTE 11. STOCKHOLDERS' EQUITY

Stock Repurchase Program I

To facilitate our stock repurchase program, designed to return value to our stockholders and minimize dilution from stock issuances, we repurchase shares in the open market and also enter into structured repurchases with third-parties.

During the nine months ended August 28, 2009 and August 29, 2008, we entered into several structured repurchase agreements with large financial institutions, whereupon we provided the financial institutions with prepayments of $350.0 million and $325.0 million, respectively. We entered into these agreements in order to take advantage of repurchasing shares at a guaranteed discount to the Volume Weighted Average Price ("VWAP") of our common stock over a specified period of time. We only enter into such transactions when the discount that we receive is higher than the foregone return on our cash prepayments to the financial institutions. There were no explicit commissions or fees on these structured repurchases. Under the terms of the agreements, there is no requirement for the financial institutions to return any portion of the prepayment to us.

The financial institutions agree to deliver shares to us at monthly intervals during the contract term. The parameters used to calculate the number of shares deliverable are: the total notional amount of the contract, the number of trading days in the contract, the number of trading days in the interval and the average VWAP of our stock during the interval less the agreed upon discount. During the nine months ended August 28, 2009, we repurchased approximately 9.9 million shares at an average price of $25.31 through structured repurchase agreements, which included prepayments from fiscal 2008 and 2009. During the nine months ended August 29, 2008, we repurchased 19.0 million shares at an average price of $37.12 through structured repurchase agreements, which included prepayments from fiscal 2007. During the nine months ended August 29, 2008, we also repurchased 0.75 million shares at an average price of $39.19 in open market transactions.

As of August 28, 2009 and November 28, 2008, prepayments were classified as treasury stock on our Condensed Consolidated Balance Sheets at the payment date, though only shares physically delivered to us by the financial

statement date are excluded from the denominator in the computation of earnings per share. As of August 28, 2009 and August 29, 2008, approximately $233.9 million and $41.0 million, respectively, of up-front payments remained under the agreements.

Stock Repurchase Program II

Under this stock repurchase program, we had authorization to repurchase 50.0 million shares of our common stock. From the inception of the 50.0 million share authorization under this program, we provided prepayments of $1.9 billion under structured share repurchase agreements to large financial institutions. During the third quarter of fiscal 2008, the remaining authorized number of shares were repurchased.

During the nine months ended August 29, 2008, we provided prepayments of $1.0 billion and repurchased 31.9 million shares through structured share repurchase agreements at an average price of $37.15. As of August 29, 2008, there

ADOBE SYSTEMS INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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were no up-front payments remaining under these agreements. During the nine months ended August 29, 2008, we also repurchased 0.5 million shares at an average price of $39.79 in open market transactions.

NOTE 12. COMPREHENSIVE INCOME

The following table sets forth the activity for each component of other comprehensive income, net of related taxes (income tax effects were insignificant for all periods presented), for the three and nine months ended August 28, 2009 and August 29, 2008 (in thousands):

	Three Months		Nine Months	
	2009	2008	2009	2008
Net income	$136,045	$191,608	$418,551	$625,897
Other comprehensive income (loss):				
Unrealized gains (losses) on available-for-sale securities	278	(1,954)	1,856	(11,158)
Reclassification adjustment for (gains) losses on available-for-sale securities recognized during the period	(2,449)	(44)	(5,026)	157
Unrealized (losses) gains on derivative instruments	(329)	10,494	(14,516)	10,776
Reclassification adjustment for gains on derivative instruments recognized during the period	(749)	—	(27,138)	—
Foreign currency translation adjustments	(2,333)	(6,358)	9,330	(4,284)
Other comprehensive (loss) income	(5,582)	2,138	(35,494)	(4,509)
Total other comprehensive income, net of taxes	$130,463	$193,746	$383,057	$621,388

The following table sets forth the components of accumulated other comprehensive income, net of related taxes, as of August 28, 2009 and November 28, 2008 (in thousands):

	2009	2008
Net unrealized gains on available-for-sale securities:		
Unrealized gains on available-for-sale securities	$12,844	$16,062
Unrealized losses on available-for-sale securities	(107)	(155)
Total net unrealized gains on available-for-sale securities	12,737	15,907
Net unrealized gains on derivative instruments	96	41,750
Cumulative foreign currency translation adjustments	8,895	(435)
Total accumulated other comprehensive income, net of taxes	$21,728	$57,222

NOTE 13. NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted net income per share for the three and nine months ended August 28, 2009 and August 29, 2008 (in thousands, except per share data):

Three Months		Nine Months	
2009	2008	2009	2008

Net income	$136,045	$191,608	$418,551	$625,897
Shares used to compute basic net income per share	525,911	531,060	528,015	542,624
Dilutive potential common shares:				
Unvested restricted stock and performance share awards	1,940	1,063	1,696	991
Stock options	3,958	9,188	3,135	9,124
Shares used to compute diluted net income per share	531,809	541,311	532,846	552,739
Basic net income per share	$0.26	$0.36	$0.79	$1.15
Diluted net income per share	$0.26	$0.35	$0.79	$1.13

For the three and nine months ended August 28, 2009, options to purchase approximately 24.5 million and 30.6 million shares, respectively, of common stock with exercise prices greater than the average fair market value of our stock of $30.40 and $24.99, respectively, were not included in the calculation because the effect would have been anti-dilutive. Comparatively, for the three and nine months ended August 29, 2008, options to purchase approximately 14.4 million and 15.4 million shares, respectively, of common stock with exercise prices greater than the average fair market value of our stock of $42.06 and $39.21, respectively, were not included in the calculation because the effect would have been anti-dilutive.

NOTE 14. COMMITMENTS AND CONTINGENCIES

Lease Commitments

We occupy three office buildings in San Jose, California where our corporate headquarters are located. We reference these office buildings as the Almaden Tower and the East and West Towers.

In August 2004, we extended the lease agreement for our East and West Towers for an additional five years with an option to extend for an additional five years solely at our election. In June 2009, we submitted notice to the lessor that we intended to exercise our option to renew this agreement for an additional five years effective August 2009. As stated in the original lease agreement, in conjunction with the lease renewal, we were required to obtain a standby letter of credit for approximately $16.5 million which enabled us to secure a lower interest rate and reduce the number of covenants. As defined in the lease agreement, the standby letter of credit primarily represents the lease investment balance equity which is callable in the event of default. In March 2007, the Almaden Tower lease was extended for five years, with a renewal option for an additional five years solely at our election. As part of the lease extensions, we purchased the lease receivable from the lessor of the East and West Towers for $126.8 million and a portion of the lease receivable from the lessor of the Almaden Tower for $80.4 million, both of which are recorded as investments in lease receivables on our Condensed Consolidated Balance Sheets. This purchase may be credited against the residual value guarantee if we purchase the properties or will be repaid from the sale proceeds if the properties are sold to third-parties. Under the agreement for the East and West Towers and the agreement for the Almaden Tower, we have the option to purchase the buildings at any time during the lease term for approximately $143.2 million and $103.6 million, respectively. The residual value guarantees under the East and West Towers and the Almaden Tower obligations are $126.8 million and $89.4 million, respectively.

These two leases are both subject to standard covenants including certain financial ratios that are reported to the lessors quarterly. As of August 28, 2009, we were in compliance with all covenants. In the case of a default, the lessor may demand we purchase the buildings for an amount equal to the lease balance, or require that we remarket or relinquish the buildings. Both leases qualify for operating lease accounting treatment under SFAS No. 13, “Accounting for Leases,” and, as such, the buildings and the related obligations are not included on our Condensed Consolidated Balance Sheets. We utilized this type of financing in order to access bank-provided funding at the most favorable rates and to provide the lowest total cost of occupancy for the headquarter buildings. At the end of the lease term, we can extend the lease for an additional five year term, purchase the buildings for the lease balance, remarket or relinquish the buildings. If we choose to remarket or are required to do so upon relinquishing the buildings, we are bound to arrange the sale of the buildings to an unrelated party and will be required to pay the lessor any shortfall between the

net remarketing proceeds and the lease balance, up to the residual value guarantee amount.

Guarantees

The lease agreements for our corporate headquarters provide for residual value guarantees as noted above. Under FIN 45, the fair value of a residual value guarantee in lease agreements entered into after December 31, 2002 must be recognized as a liability on our Condensed Consolidated Balance Sheets. As such, we recognized $5.2 million and $3.0 million in liabilities, related to the East and West Towers and Almaden Tower leases, respectively. These liabilities are recorded in other long-term liabilities with the offsetting entry recorded as prepaid rent in other assets. The balance will be amortized to the income statement over the life of the leases. As of August 28, 2009 and November 28, 2008, the unamortized portion of the fair value of the residual value guarantees, for both leases, remaining in other long-term liabilities and prepaid rent was $1.5 million and $2.6 million, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Royalties

We have royalty commitments associated with the shipment and licensing of certain products. Royalty expense is generally based on a dollar amount per unit shipped 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. 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 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.

As part of our limited partnership interest in Adobe Ventures, we have provided a general indemnification to Granite Ventures, an independent venture capital firm and sole general partner of Adobe Ventures, for certain events or occurrences while Granite Ventures is, or was serving, at our request in such capacity provided that Granite Ventures acts in good faith on behalf of the partnership. We are unable to develop an estimate of the maximum potential amount of future payments that could potentially result from any hypothetical future claim, but believe the risk of having to make any payments under this general indemnification to be remote.

Legal Proceedings

On September 23, 2009, Richard Miner on behalf of himself and all similarly situated stockholders of Omniture, Inc. filed a class action lawsuit captioned Miner v. Omniture, Inc., et. al., Case No. 090403559 (the "Miner Lawsuit") against Omniture, the members of Omniture's board of directors (collectively, the "Omniture Defendants") and Adobe in the United States Fourth Judicial District Court for Utah County, Provo Department, State of Utah seeking to enjoin the proposed acquisition between Omniture and Adobe. In the event the acquisition is consummated, the plaintiff seeks to recover an unspecified amount of damages. The plaintiff alleges that the members of Omniture's board of directors breached their fiduciary duties to Omniture's stockholders by failing to seek the highest possible price for Omniture and that Adobe induced or aided and abetted in the alleged breach of such fiduciary duties. Also on September 23, 2009, Christopher R. Barrell filed a substantially similar lawsuit to the Miner Lawsuit in the United States Fourth Judicial District Court for Utah County, Provo Department, State of Utah, captioned Barrell v. Omniture, Inc. et. al., Case No. 090403560 (the "Barrell Lawsuit"). The Barrell Lawsuit names the same defendants as the Miner Lawsuit, and also names Snowbird Acquisition Corporation as an additional defendant. Subsequently, on September 24, 2009, the plaintiff in the Barrell Lawsuit filed an amended complaint, which added allegations that the

Schedule 14D-9 Solicitation/Recommendation Statement filed by Omniture on September 24, 2009 contained inadequate disclosures and was materially misleading. On September 25, 2009, the Omniture Defendants filed a motion requesting that the court consolidate the Barrell Lawsuit, Miner Lawsuit and a substantially similar lawsuit captioned Lodhia v. Omniture, Inc. et al., Case No. 090403499 (the "Lodhia Lawsuit") in which the Omniture Defendants, but not Adobe, were named. Additionally, on September 30, 2009, the plaintiff in the Lodhia Lawsuit filed a response to defendants' motion to consolidate, agreeing consolidation is appropriate, and also filed a motion seeking appointment as lead plaintiff in the consolidated action. The plaintiff in the Lodhia Lawsuit also filed a motion for preliminary injunction, expedited discovery and expedited proceedings. We have not yet responded to the complaints, but intend to defend the lawsuits vigorously.

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 local laws. We believe we have valid defenses with

respect to such counter-claims; however, it is possible that our condensed consolidated financial position, cash flows or results of operations could be affected in any particular period by the resolution of one or more of these counter-claims.

From time to time, Adobe is subject to legal proceedings, claims and investigations in the ordinary course of business, including claims of alleged infringement of third-party patents and other intellectual property rights, commercial, employment and other matters. We believe that we have valid defenses with respect to the legal matters pending against Adobe; however, litigation is inherently unpredictable and it is possible that our condensed 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.

NOTE 15. CREDIT AGREEMENT

In August 2007, we entered into an Amendment to our Credit Agreement dated February 2007 (the “Amendment”), which increased the total senior unsecured revolving facility from $500.0 million to $1.0 billion. The Amendment also permits us to request one-year extensions effective on each anniversary of the closing date of the original agreement, subject to the majority consent of the lenders. We also retain an option to request an additional $500.0 million in commitments, for a maximum aggregate facility of $1.5 billion.

In February 2008, we entered into a Second Amendment to the Credit Agreement dated February 26, 2008, which extended the maturity date of the facility by one year to February 16, 2013. The facility would terminate at this date if no additional extensions have been requested and granted. All other terms and conditions remain the same.

The facility contains a financial covenant requiring us not to exceed a certain maximum leverage ratio. At the Company’s option, borrowings under the facility accrue interest based on either the London interbank offered rate (“LIBOR”) for one, two, three or six months, or longer periods with bank consent, plus a margin according to a pricing grid tied to this financial covenant, or a base rate. The margin is set at rates between 0.20% and 0.475%. Commitment fees are payable on the facility at rates between 0.05% and 0.15% per year based on the same pricing grid. The facility is available to provide loans to us and certain of our subsidiaries for general corporate purposes. As of both August 28, 2009 and November 28, 2008, the amount outstanding under the credit facility was $350.0 million, which is included in long-term liabilities on our Condensed Consolidated Balance Sheets. As of August 28, 2009, we were in compliance with all of the covenants. Subsequent to August 28, 2009, we borrowed an additional $650.0 million under the credit facility. See Note 18 for further discussion of this transaction. The carrying value of the outstanding liability approximates fair value.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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NOTE 16. NON-OPERATING INCOME (EXPENSE)

Non-operating income (expense) for the three and nine months ended August 28, 2009 and August 29, 2008 included the following (in thousands):

	Three Months		Nine Months	
	2009	2008	2009	2008
Interest and other income, net:				
Interest income	$7,616	$14,407	$28,655	$45,110
Foreign exchange losses	(3,545)	(5,967)	(9,621)	(11,901)
Realized gains on fixed income investment	2,449	85	5,027	1,184
Realized losses on fixed income investment	—	(41)	(1)	(1,340)
Other, net	147	854	693	1,725
Interest and other income, net	$6,667	$9,338	$24,753	$34,778
Interest expense	$(460)	$(2,390)	$(1,872)	$(8,027)
Investment gains (losses), net:				
Realized investment gains	$—	$2,861	$52	$18,298
Unrealized investment gains	2,019	2,882	3,396	7,840
Realized investment losses	(1,362)	(353)	(3,347)	(989)
Unrealized investment losses	(50)	(3,293)	(18,545)	(4,814)
Investment gains (losses), net	$607	$2,097	$(18,444)	$20,335
Total non-operating income (expense), net	$6,814	$9,045	$4,437	$47,086

NOTE 17. SEGMENTS

We have the following reportable segments: Creative Solutions, Knowledge Worker, Enterprise, Platform and Print and Publishing. Our Creative Solutions segment focuses on delivering a complete professional line of integrated tools for a full range of creative and developer tasks to an extended set of customers. The Knowledge Worker segment focuses on the needs of knowledge worker customers, providing essential applications and services to help them share information and collaborate. This segment contains revenue generated by Acrobat Connect and our Acrobat family of products. Our Enterprise segment provides server-based enterprise interaction solutions that automate people-centric processes and contains revenue generated by our LiveCycle line of products. The Platform segment includes client and developer technologies, such as Adobe Flash Player, Adobe Flash Lite, Adobe AIR, Adobe Flex and Adobe Flex Builder, and also encompasses products and technologies created and managed in other Adobe segments. Finally, the Print and Publishing segment addresses market opportunities ranging from the diverse publishing needs of technical and business publishing, to our legacy type and original equipment manufacturer ("OEM") printing businesses.

Effective in the first quarter of fiscal 2009, our former Mobile and Devices Solutions segment, was integrated into our Platform business unit to better align our engineering and marketing efforts and is now reported as part of the Platform segment. Prior year information in the table below has been reclassified to reflect the integration of these business units.

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

Our chief operating decision maker reviews revenue and gross margin information for each of our reportable segments. Operating expenses are not reviewed 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(in thousands)	Creative Solutions	Knowledge Worker	Enterprise	Platform(*)	Print and Publishing	Total
Three months ended August 28, 2009						
Revenue	$400,360	$154,517	$55,488	$44,935	$42,207	$697,507
Cost of revenue	34,903	9,870	10,957	4,946	4,371	65,047
Gross profit	$365,457	$144,647	$44,531	$39,989	$37,836	$632,460
Gross profit as a percentage of revenue	91 %	94 %	80 %	89 %	90 %	91 %
Three months ended August 29, 2008						
Revenue	$493,615	$217,988	$65,491	$59,077	$51,086	$887,257
Cost of revenue	53,716	15,762	20,727	14,137	6,509	110,851
Gross profit	$439,899	$202,226	$44,764	$44,940	$44,577	$776,406
Gross profit as a percentage of revenue	89 %	93 %	68 %	76 %	87 %	88 %

(*) Platform revenue includes revenue related to our Mobile client products of $8.4 million and $27.5 million for the three months ended August 28, 2009 and August 29, 2008, respectively, or 19% and 47% of Platform revenues, respectively.

(in thousands)	Creative Solutions	Knowledge Worker	Enterprise	Platform(*)	Print and Publishing	Total
Nine months ended August 28, 2009						
Revenue	$1,272,837	$473,670	$173,039	$134,053	$134,971	$2,188,570
Cost of revenue	117,225	30,088	36,175	16,420	14,500	214,408
Gross profit	$1,155,612	$443,582	$136,864	$117,633	$120,471	$1,974,162
Gross profit as a percentage of revenue	91 %	94 %	79 %	88 %	89 %	90 %
Nine months ended August 29, 2008						
Revenue	$1,564,334	$611,925	$174,011	$155,037	$159,281	$2,664,588
Cost of revenue	124,024	39,475	56,308	35,347	21,038	276,192
Gross profit	$1,440,310	$572,450	$117,703	$119,690	$138,243	$2,388,396
Gross profit as a percentage of revenue	92 %	94 %	68 %	77 %	87 %	90 %

(*) Platform revenue includes revenue related to our Mobile client products of $42.9 million and $64.9 million for the nine months ended August 28, 2009 and August 29, 2008, respectively, or 32% and 42% of Platform revenues, respectively.

NOTE 18. SUBSEQUENT EVENTS

Subsequent to August 28, 2009, we completed a business combination for cash consideration of approximately $35.3 million. This acquisition was not material to our consolidated balance sheets and results of operations. See Note 4 for further discussion of this transaction.

In September 2009, we entered into a definitive agreement with Omniture under which we expect to acquire Omniture for approximately $1.8 billion. Under the terms of the agreement, we have commenced a tender offer to acquire all of the outstanding common stock of Omniture for $21.50 per share in cash. Omniture is an industry leader in Web analytics and online business optimization based in Orem, Utah. The transaction is subject to customary regulatory approvals and closing conditions and is expected to close in the fourth quarter of our fiscal 2009. Following the closing, we intend to integrate Omniture as a new reportable segment for financial reporting purposes.

Subsequent to August 28, 2009, we borrowed an additional $650.0 million under our credit facility to be used to fund a portion of our pending acquisition of Omniture. See Note 15 for further discussion of our credit facility.

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

The following discussion (unaudited and presented in millions, except share and per share amounts) 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 and market opportunities, which involve 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 Securities and Exchange Commission (the "SEC"), including the Annual Report on Form 10-K for fiscal 2008. When used in this report, the words "expects," "could," "would," "may," "anticipate "intends," "plans," "believes," "seeks," "targets," "estimates," "looks for," "looks to" and similar expressions, as well as st regarding our focus for the future, are generally intended to identify forward-looking statements. 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.

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 creative, business and mobile software and services used by creative professionals, designers, knowledge workers, consumers, original equipment manufacturers ("OEM") partners, developers and enterprises for creating, managing, delivering and engaging with compelling content and experiences across multiple operating systems, devices and media. We distribute our products through a network of distributors and dealers, value-added resellers ("VARs"), systems integrators, independent software vendors ("ISVs") and OEMs, direct to end users and through our Web site at www.adobe.com. We also license our technology to hardware manufacturers, software developers and service providers, and we offer integrated software solutions to businesses of all sizes. We have operations in the Americas, Europe, the Middle East and Africa ("EMEA") and Asia. Our software runs on personal computers with Microsoft Windows, Apple OS, Linux, UNIX and various non-PC platforms, depending on the product.

We maintain executive offices and principal facilities at 345 Park Avenue, San Jose, California 95110-2704. Our telephone number is 408-536-6000. We maintain a Web site at www.adobe.com. Investors can obtain copies of our SEC filings from this site free of charge, as well as from the SEC Web site at www.sec.gov.

PENDING ACQUISITION

In September 2009, we entered into a definitive agreement with Omniture, Inc. ("Omniture") under which we expect to acquire Omniture for approximately $1.8 billion. Under the terms of the agreement, we have commenced a tender offer to acquire all of the outstanding common stock of Omniture for $21.50 per share in cash. Omniture is an industry leader in Web analytics and online business optimization based in Orem, Utah. The transaction is subject to customary regulatory approvals and closing conditions and is expected to close in the fourth quarter of our fiscal 2009. Following the closing, we intend to integrate Omniture as a new reportable segment for financial reporting purposes. We expect the acquisition to have a significant impact on our consolidated financial position, results of operations and cash flows. The discussions in this Quarterly Report on Form 10-Q relate to Adobe as a standalone entity and do not reflect the impact of the acquisition.

OPERATIONS OVERVIEW

Effective in the first quarter of fiscal 2009, our former Mobile and Devices Solutions segment, which was integrated into our Platform business unit to better align our engineering and marketing efforts, is now reported as part of the Platform segment. Prior year information has been updated to reflect the integration of these business units.

During the third quarter of fiscal 2009, our worldwide business continued to be impacted by the generally weak macro-economic environment. Although we believe our business in the United States ("U.S.") has stabilized since our first fiscal quarter of this year, overall end-user demand for most of our products, particularly our Adobe Creative Suite family of products and our Adobe Acrobat family of products, remains weaker than comparable periods during fiscal 2008. Despite this impact on our overall revenue achievement, we continued to proactively control our costs to deliver earnings per share and profit margin results within the target ranges we publicly provided at the outset of the quarter.

In our Creative Solutions segment, revenue for our CS4 family of products continues to fall behind the revenue achieved for the equivalent CS3 products for the comparable period of time. We attribute this weakness to the economic conditions affecting the business of our creative professional customers. Based on economic predictions and market trends such as marketing and ad spending, we do not expect the market environment for creative products to improve materially in the near term.

Our Knowledge Worker segment also continued to be affected by a slow-down in demand, resulting in a year-over-year revenue decline. We attribute this weakness to reduced corporate spending due to the economy. We do not expect the market environment to improve materially in the near term.

In our Enterprise segment, although third quarter fiscal 2009 revenue grew sequentially from the revenue achieved in the second quarter of fiscal 2009, our revenue declined significantly on a year-over-year basis. We attribute this year-over-year decline to the macro impact from the economy which has resulted in reduced spending by our enterprise customers.

Our Platform segment revenue grew sequentially but declined on a year-over-year basis primarily due to lower revenue from licensing of our Flash Lite client technologies by mobile handset OEM and consumer electronic device manufacturers. We have stated we expect the May 1, 2008 announcement of the Open Screen Project to substantially reduce our mobile and device revenue this fiscal year due to the removal of licensing fees for Open Screen Project members on the next major releases of our Adobe Flash Platform technologies. Partially offsetting this revenue decline within our Platform segment is the build out of OEM relationships with companies in which we offer their applications as part of the download of our client technologies such as Adobe Reader, Adobe Flash Player and Adobe Shockwave Player.

Product revenues reported in our Print and Publishing business segment were also affected by end-user demand weakness because of economic conditions. We expect end-user demand weakness to continue in the near term.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

We believe that the assumptions, judgments and estimates involved in the accounting for revenue recognition, stock-based compensation, goodwill impairment and income taxes have the greatest potential impact on our Condensed Consolidated Financial Statements. These areas are key components of our results of operations and are based on complex rules which require 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 nine months ended August 28, 2009 as compared to the critical accounting policies and estimates disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the

year ended November 28, 2008.

RESULTS OF OPERATIONS

Revenue for the Three and Nine Months Ended August 28, 2009 and August 29, 2008 (dollars in millions)

	Three Months		Percent	Nine Months		Percent
	2009	2008	Change	2009	2008	Change
Product	$649.9	$838.9	(23)%	$2,052.1	$2,532.1	(19)%
Percentage of total revenue	93%	95%		94%	95%	
Services and support	47.6	48.4	(2)%	136.5	132.5	3%
Percentage of total revenue	7%	5%		6%	5%	
Total revenue	$697.5	$887.3	(21)%	$2,188.6	$2,664.6	(18)%

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As described in Note 17 of our Notes to Condensed Consolidated Financial Statements, we have the following segments: Creative Solutions, Knowledge Worker, Enterprise, Platform and Print and Publishing.

Our services and support revenue is comprised of consulting, training, and maintenance and support, primarily related to the licensing of our enterprise, developer and platform products. 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 product upgrades and enhancements or technical support, depending on the offering, are recognized ratably over the term of the arrangement.

Segment Information (dollars in millions)

	Three Months		Percent	Nine Months		Percent
	2009	2008	Change	2009	2008	Change
Creative Solutions	$400.4	$493.6	(19)%	$1,272.8	$1,564.3	(19)%
Percentage of total revenue	57%	56%		58%	59%	
Knowledge Worker	154.5	218.0	(29)%	473.7	612.0	(23)%
Percentage of total revenue	22%	25%		22%	23%	
Enterprise	55.5	65.5	(15)%	173.0	174.0	(1)%
Percentage of total revenue	8%	7%		8%	7%	
Platform	44.9	59.1	(24)%	134.1	155.0	(13)%
Percentage of total revenue	7%	7%		6%	5%	
Print and Publishing	42.2	51.1	(17)%	135.0	159.3	(15)%
Percentage of total revenue	6%	5%		6%	6%	
Total revenue	$697.5	$887.3	(21)%	$2,188.6	$2,664.6	(18)%

Revenue from Creative Solutions decreased $93.2 million and $291.5 million during the three and nine months ended August 28, 2009, respectively, as compared to the three and nine months ended August 29, 2008. This decrease during the three and nine months ended August 28, 2009 as compared to the three and nine months ended August 29, 2008 was driven largely by a 15% and 16% decline in Creative Suites related revenue and a decline of 28% and 27% in Photoshop point product revenue, respectively. Also contributing to the decrease during the three and nine months ended August 28, 2009 as compared to the three and nine months ended August 29, 2008 was an overall decline in the number of units licensed. Average unit selling prices have remained relatively consistent.

Revenue from Knowledge Worker decreased $63.5 million and $138.3 million during the three and nine months ended August 28, 2009, respectively, as compared to the three and nine months ended August 29, 2008, primarily due to a decrease in revenue from our Acrobat family of products. We attribute the decline in revenue during the three and nine months ended August 28, 2009 compared to the three and nine months ended August 29, 2008 to lower volume licensing by our enterprise customers, as well as a decrease in the number of units sold through our shrink-wrap distribution channel. Average unit selling prices have remained relatively consistent.

Revenue from Enterprise decreased $10.0 million during the three months ended August 28, 2009, as compared to the three months ended August 29, 2008. Revenue from Enterprise was relatively consistent during the nine months ended August 28, 2009, as compared to the nine months ended August 29, 2008. The decrease in Enterprise revenue during the three months ended August 28, 2009, as compared to the three months ended August 29, 2008 was primarily due to the economy's impact on corporate spending in the markets we target with our LiveCycle product line.

Revenue from Platform decreased $14.2 million and $20.9 million during the three and nine months ended August 28, 2009, respectively, compared to the three and nine months ended August 29, 2008. The decrease was primarily due to lower mobile revenue from OEM partners who license our Flash Lite product.

Revenue from Print and Publishing decreased $8.9 million and $24.3 million during the three and nine months ended August 28, 2009, respectively, compared to the three and nine months ended August 29, 2008. The decrease resulted principally from a slight decline in revenue associated with our PostScript products.

Geographical Information (dollars in millions)

	Three Months		Percent	Nine Months		Percent
	2009	2008	Change	2009	2008	Change
Americas	$354.6	$429.6	(17)%	$998.5	$1,210.3	(18)%
Percentage of total revenue	51 %	49 %		46 %	46 %	
EMEA	196.2	296.0	(34)%	688.9	914.5	(25)%
Percentage of total revenue	28 %	33 %		31 %	34 %	
Asia	146.7	161.7	(9)%	501.2	539.8	(7)%
Percentage of total revenue	21 %	18 %		23 %	20 %	
Total revenue	$697.5	$887.3	(21)%	$2,188.6	$2,664.6	(18)%

Overall revenue for the three and nine months ended August 28, 2009 decreased when compared to the three and nine months ended August 29, 2008 primarily due to a reduction in the adoption and licensing of our Creative Suite and Acrobat families of products.

Revenue in the Americas decreased $75.0 million and $211.8 million during the three and nine months ended August 28, 2009, respectively, compared to the three and nine months ended August 29, 2008, primarily due to economic conditions resulting in weaker demand for our creative and knowledge worker products.

Revenue in EMEA decreased $99.8 million and $225.6 million during the three and nine months ended August 28, 2009, respectively, compared to the three and nine months ended August 29, 2008, primarily due to weaker demand with our creative and knowledge worker products.

Revenue in Asia decreased $15.0 million and $38.6 million during the three and nine months ended August 28, 2009, respectively, compared to the three and nine months ended August 29, 2008, primarily due to economic conditions resulting in weaker demand and normal seasonal declines.

Included in the overall decrease in revenue were impacts associated with foreign currency. Revenue in EMEA measured in U.S. dollars decreased approximately $15.1 million and $63.1 million, due to the strength of the U.S. dollar against the Euro, during the three and nine months ended August 28, 2009, respectively, over the same reporting period last year. Our currency hedging program is used to mitigate a portion of the foreign currency impact to revenue. During the three and nine months ended August 28, 2009, our currency hedging program resulted in hedging gains of $0.2 million and $25.8 million, respectively. Revenue in Asia measured in U.S. dollars was favorably impacted by approximately $8.0 million and $26.5 million due to the strength of the Yen against the U.S. dollar during the three and nine months ended August 28, 2009, respectively, over the same reporting period last year.

Product Backlog

The actual amount of product backlog at any particular time may not be a meaningful indicator of future business prospects. Backlog is comprised of unfulfilled orders, excluding those associated with new product releases, those pending credit review and those not shipped due to the application of our global inventory policy. As of August 28, 2009, our backlog was approximately 2% of third quarter fiscal 2009 revenue as compared to backlog of approximately 4% of second quarter fiscal 2009 revenue.

Cost of Revenue for the Three and Nine Months Ended August 28, 2009 and August 29, 2008 (dollars in millions)

	Three Months		Percent	Nine Months		Percent
	2009	2008	Change	2009	2008	Change

Product	$49.3	$84.7	(42)%	$164.0	$202.7	(19)%
Percentage of total revenue	7%	10%		7%	8%	
Services and support	15.7	26.2	(40)%	50.4	73.5	(31)%
Percentage of total revenue	2%	3%		2%	3%	
Total cost of revenue	$65.0	$110.9	(41)%	$214.4	$276.2	(22)%

Product

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

Cost of product revenue increased (decreased) due to the following:

	Percent Change 2008 to 2009 QTD		Percent Change 2008 to 2009 YTD	
Hosted services	4	%	5	%
Royalty cost	1		3	
Excess and obsolete inventory	(3	)	—	
Amortization of acquired rights to use technology	(31	)	(11	)
Localization costs related to our product launches	2		(1	)
Amortization of purchased intangibles	(10	)	(12	)
Various individually insignificant items	(5	)	(3	)
Total change	(42	)%	(19	)%

The increase in hosted service costs was primarily related to the amortization of capitalized infrastructure costs for the three and nine months ended August 28, 2009 as compared to the three and nine months ended August 29, 2008.

The decrease in amortization of acquired rights to use technology primarily relates to a charge for historical use of licensing rights associated with certain technology licensing arrangements entered into in the third quarter of fiscal 2008 that did not recur in the third quarter of fiscal 2009.

Amortization of purchased intangibles decreased during the three and nine months ended August 28, 2009 as compared to the three and nine months ended August 29, 2008, primarily due to a decrease in amortization expense associated with intangible assets purchased through the Macromedia acquisition, which are expected to be fully amortized at the end of fiscal 2009.

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 decreased during the three and nine months ended August 28, 2009 as compared to the three and nine months ended August 29, 2008, primarily due to decreases in compensation and related benefits driven by headcount reductions.

Operating Expenses for the Three and Nine Months Ended August 28, 2009 and August 29, 2008 (dollars in millions)

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

Compensation costs decreased for the three and nine months ended August 28, 2009 primarily due to lower profit sharing and employee bonuses based on company performance to date, when compared to the three and nine months ended August 29, 2008.

Research and Development

	Three Months		Percent	Nine Months		Percent
	2009	2008	Change	2009	2008	Change
Expenses	$138.9	$170.1	(18)%	$427.3	$508.9	(16)%
Percentage of total revenue	20 %	19 %		20 %	19 %	

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

Research and development expenses decreased due to the following:

	Percent Change 2008 to 2009 QTD	Percent Change 2008 to 2009 YTD
Compensation associated with incentive compensation and stock-based compensation	(16)%	(13)%
Various individually insignificant items	(2)	(3)
Total change	(18)%	(16)%

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 products. We will continue to focus on long-term opportunities available in our end markets and make significant investments in the development of our desktop application and server-based software products.

Sales and Marketing

	Three Months 2009	Three Months 2008	Percent Change	Nine Months 2009	Nine Months 2008	Percent Change
Expenses	$231.3	$271.4	(15)%	$724.0	$813.4	(11)%
Percentage of total revenue	33 %	31 %		33 %	31 %	

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 decreased due to the following:

	Percent Change 2008 to 2009 QTD	Percent Change 2008 to 2009 YTD
Marketing spending related to product launches and overall marketing efforts to further increase revenue	(3)%	— %
Compensation associated with incentive compensation and stock-based compensation	(8)	(7)
Various individually insignificant items	(4)	(4)
Total change	(15)%	(11)%

General and Administrative

	Three Months 2009	Three Months 2008	Percent Change	Nine Months 2009	Nine Months 2008	Percent Change
Expenses	$79.6	$97.2	(18)%	$224.5	$257.2	(13)%
Percentage of total revenue	11 %	11 %		10 %	10 %	

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.

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General and administrative expenses increased (decreased) due to the following:

	Percent Change 2008 to 2009 QTD	Percent Change 2008 to 2009 YTD
Provision for bad debts	(5)%	— %
Facilities and telecommunication	(2)	(2)
Professional and consulting fees	(18)	(6)
Compensation associated with incentive compensation and stock-based compensation	(8)	(8)
Charitable contributions	10	—
Various individually insignificant items	5	3
Total change	(18)%	(13)%

The decrease in professional and consulting fees during the three and nine months ended August 28, 2009 as compared to the three and nine months ended August 29, 2008 was primarily due to additional fees incurred in the third quarter of fiscal 2008 to avoid litigation costs in connection with intellectual property arrangements that did not recur during fiscal 2009.

The increase in charitable contributions during the three months ended August 28, 2009 reflects a change in the timing of contributions to the Adobe Foundation.

Restructuring Charges

	Three Months 2009	Three Months 2008	Percent Change	Nine Months 2009	Nine Months 2008	Percent Change
Expenses	$ —	$1.2	*	$15.9	$2.6	*
Percentage of total revenue	*	*		1 %	*	